October 25, 1949

The Reporter

THE AMERICAN BUSINESSMAN

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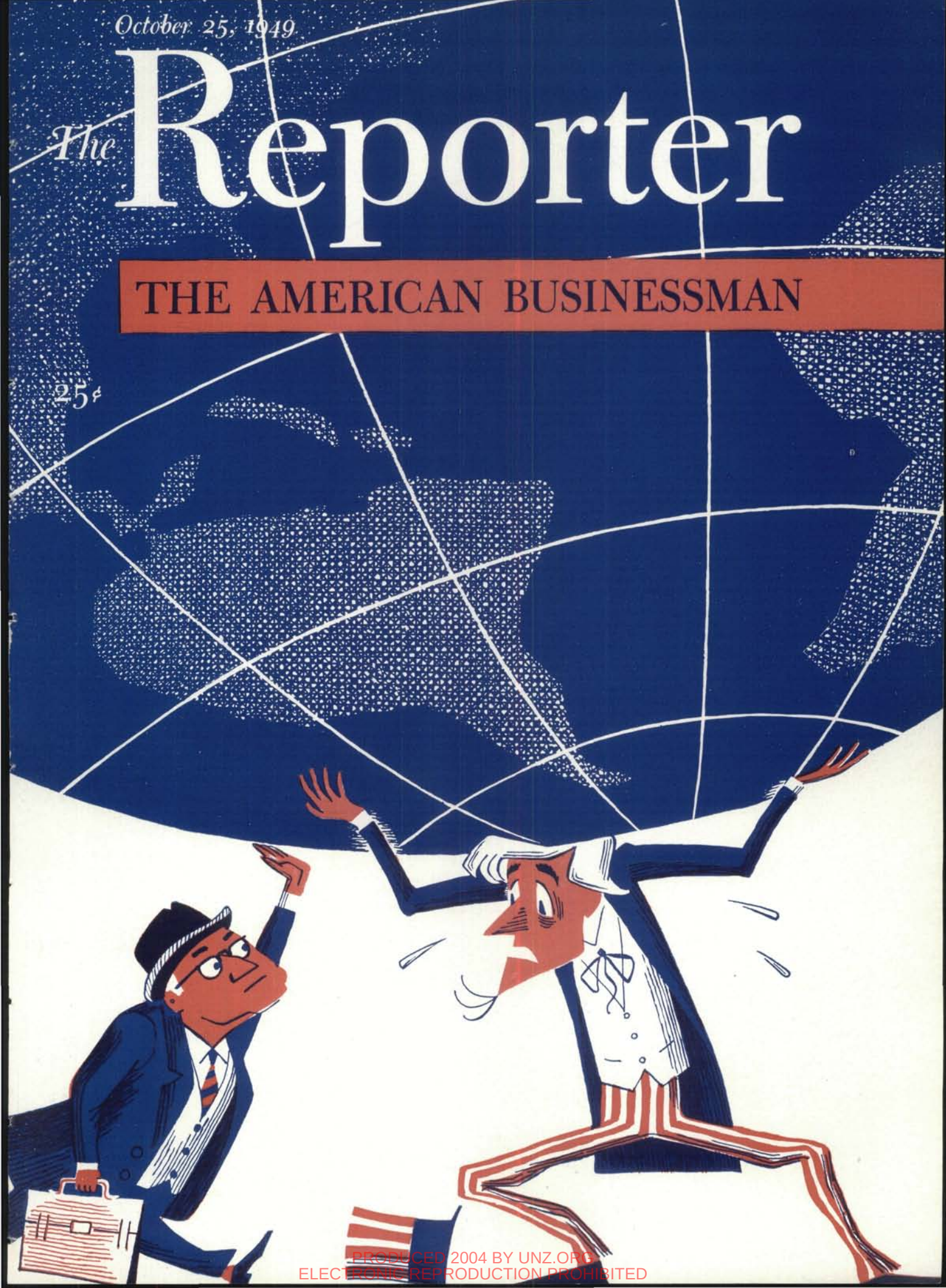

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Steel plant near Pittsburgh

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October 25, 1949

The Reporter

A fortnightly of facts and ideas

Volume 1, No. 14

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At the present time American business has the greatest opportunities it has had since the depression. American business has a job to do in all the world. But American investment of capital abroad is only a minor part of what business initiative can accomplish. More important, perhaps, is the investment abroad of our organizational and technical skills, the sensible and sensitive application to extremely different conditions abroad of all that we have learned at home.

In this issue, we consider the conditions peculiar to American business, the functions and dangers of business concentration. But, above all, we see American business in terms of its potentialities. We see the possibility of a new cycle of American creativeness which might well compare with the historic drive to our own western frontier a century ago.

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Editorial

The Gilded Doghouse

At the time of its founding, this country was led by men who knew exactly what they were after. They wanted a national government with defined and limited powers, and their aim was to provide the individual with the amount of government he needed to be protected from both tyranny and lawlessness. The founding fathers were statesmen, not fortune tellers. They thought that freedom could best be guaranteed by keeping the three branches of government separate and in balance. In no way could they have imagined that one day big business, big labor, and big government would come into existence, and that each of them would outbid the others in offering the individual new services and new freedoms.

The liberal persuasion that guided the founding fathers is hailed in our days by the advocates of business, labor, and government. The individual is smothered under offers of mass-produced goods, of protection from exploitation, of privately or publicly organized welfare. The trouble is that, while practically everybody in America except those on the lunatic fringes claims to be a liberal, the liberal belief has lost most of its glow. To make the confusion even greater, the word liberalism has been appropriated by praiseworthy and disillusioned men and women who have little to offer but gloom.

The Nagging Revolution

Since the 1930's, a most peculiar thing has happened in America: Everyone with a claim to make in the name of liberty has been taken seriously except the men who are running the American economic system—a system so sturdy that it came out of the greatest depression in American history practically unscathed. The business structure remained, but there was no return of the mystical belief that business by itself could solve all the problems of the nation and abolish poverty. In 1932, the political leadership of the country was taken over by men who were, by and large, unfriendly to business and who used their power, not exactly to liquidate the business leaders, or to confiscate their property, but to nag them to distraction.

This nagging revolution was called the New Deal. Since 1932, a country that once was considered normally Republican has kept electing to the highest office men who have appealed to the voters by berating "unscrupulous money changers," "economic royalists," and "gluttons of privilege."

The election of 1948 was perhaps a harder blow to the business community than the depression had been, for the plain man from Missouri had none of the political virtuosity of That Man who for so long had lived in the White House. Had the opponents of business been Communists, it would have been much easier for the business leaders to rally the people of America in defense of freedom. But no Congressional investigation or press campaign could even remotely succeed in proving that the New Dealers and the Fair Dealers—these strange collections of actual or would-be government or trade-union officials—were an advanced detachment of the Communist Party.

To make it even worse all this was happening exactly at the time when big business was taking over the function of supplying the American public with news and entertainment. The mass publications were a gigantic financial success, yet it soon became obvious that they could provide the people with amusement and glamour but not with convictions. What the people bought had no relation to how they felt, and what they read had no relation to how they voted. It was as if the American businessman could sell the public anything except himself.

Friendly publications keep telling the businessman that he is wonderful, and that his enemies are mean. But these publications, like those of the left, preach only to the converted. The public's aloofness toward business is not merely a temporary mood. Americans of generations past were accustomed to see conspiracy in bigness. In our times, they have become accustomed to taking full advantage of the products that bigness offers them, but the closer bigness gets to them the more guarded they are toward it. These days, the national craving for heroes is satisfied by baseball and the movies, for villains by the Communist Party. The American people have acquired the habit of looking at business in a busi-

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nesslike way. They repay business for its services with their cash—but no more.

The Curse of Bigness

Yet business is not the only power in modern society affected by the particular disease that is bigness. Or perhaps bigness is not a disease, but a condition that we must learn to recognize and control wherever it occurs—in government, or labor, or business. There has been a Hoover report on government, and there have been many Hoover reports on business, in the form of Congressional investigations. Our organized workers could greatly benefit from a Hoover report on labor.

We are going through times as momentous as those in which the country was founded. Not only the particular kinds of freedom that the leaders of government, business, and labor advocate, but the freedom of the whole country can be entirely destroyed, unless we do the best possible job of establishing peace in the world. For, at this particular turning point in our history, the freedom of the American people depends ultimately on the kind of order that we promote in the outside world. All our various complexes—the anti-business complex of our leading politicians, the persecution complex of labor, the melancholy of business, which suffers because it is at the same time flourishing and unloved—all these nervous disturbances, which can be fairly harmless in normal times, now need radical treatment.

The realization has come over the American people, literally all of a sudden, that the building of the nation has turned out to be singularly unfinished business. The American people cannot remain prosperous and free simply by watching out for American prosperity and freedom. Our achievement in production and distribution must now be repeated, on different scales and at different rates of development, in a very large number of foreign countries. It is true that material comfort and skill in the production of goods and services are not the essence of American civilization, but it is also true that the countries of the outside world now need most desperately to develop, and in their own way to imitate, the material and technological features of American civilization. This situation gives the men who manage the American economy a chance to show their worth by performing a businesslike job. They can meet that test.

The American experiment will be a success if it is adopted and brought forward by other nations in the world. This applies to our political institutions as well as to our economic structure. It is a unique adventure for which there are no precedents in the history of mankind. For the purpose of this adventure is not to rebuild the world in the image of America with something like our Congress, our Detroit, our Pittsburgh in every country. Even less does it mean that the world is to be ruled by America, with the business of the world entrusted to American businessmen. Rather it means that our political and economic criteria are to be adapted to the economic resources, to the needs and peculiarities, of other countries.

Know-How and How to Know

Our business and political knowledge will be of little use to the world and to ourselves unless we never stop learning how to know and how to do. Our opponents are malicious and stupid enough to accuse us of imperialism. Actually, the challenge that now confronts the leaders of American government, business, and labor is to skip the phase of imperialism and of colonial exploitation, while improving the level of productivity and well-being in foreign countries.

Perhaps this is the ground where the various brands of liberalism championed by the leaders of government, business, and labor can find their point of convergence. The fact that nearly all Americans believe in freedom can, at this particular moment of our history, become an element not of confusion but of strength. For every major American problem, including the problems of the Three Bignesses and their relationship, can find its solution in the international setting in which America now operates.

Bigness in our country has to a large extent resulted from the fact that people from all over the world, freed from their past, could settle their new nation in an empty continent. Conditions like these are to be found nowhere else in the world. If we are to apply our political and technical know-how properly, we will have to diversify and articulate our techniques and skills. Perhaps the best way to break our trusts, our actual or potential monopolies, is to have them satisfy the immensely diversified needs of the countries in which American business is going to work. Perhaps bigness in our country has been a phenomenon of adolescent growth. Certainly the time has come when government, business, and labor must check their inclination to expand, each of them big, ingrown, and smug, for the freedom of the world depends on the degree of cooperation that these three powers can establish among themselves. There are jobs at hand that do not allow delays. We cannot afford to have our strength impaired by old complexes—by going on distrusting government, maligning labor, or keeping business in a gilded doghouse.—M.A.

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The Education of Paul Hoffman

The chief of the ECA has moved steadily from salesmanship to statesmanship, from a motor company to a world-aid program

Late one afternoon last July, silence had fallen on the stale, smoky air of a Senate committee room. The hearing had been adjourned, and one by one the Senators had filed out of the chamber. The man who had been answering questions and shuffling papers since early that morning still sat at the witness table, looking up data. A porter came in to clean up, stood waiting a moment, and cleared his throat. "Mr. Hoffman?" he ventured. The witness's head snapped up. "Yes, sir?" Paul Hoffman answered tensely.

The ECA Administrator had been on call continually since the Congressional hearings on the Marshall Plan had begun, months before. He had been ordered to account for petty-cash expenditures in his four-billion-dollar budget. He had been peppered with detailed questions about every country participating in his program. He had been asked to renege, recant, resign. The questions had tested not only his knowledge but his self-discipline:

"Just what caused this usage of socialization in Great Britain?"

"Are you familiar with the difficulties of an American in Morocco?"

"Other than giving away other people's money, just what good are you doing in Europe?"

"The State Department . . . is honeycombed with Communists. Are you a Communist?"

"Do you control the output of brooms?"

He had put up a brilliant defense; and although the agency he headed emerged somewhat battered, his own stature remained undiminished; he was still the least-vilified man in the top echelons of the capital.

It is generally agreed in Washington that a phenomenon like Paul Hoffman couldn't have happened fifteen years ago. When the New Deal tide ran high, big business and big government had seemed irreconcilable. Hoffman is an able representative of both, and a caricature of neither. His policies in the name of good business often unnerve orthodox businessmen. His unorthodox ambition as a government leader—to liquidate his 17-billion-dollar agency as soon as possible and turn its task over to private enterprise—is profoundly puzzling to some bureaucrats. He has, with an equally clear conscience, chucked out special pleaders from both sides. Yet, in his eighteen months as ECA Administrator, he has been singularly free from attack by either.

In modern Washington, this achievement would be remarkable even if Hoffman were administering a relatively simple relief program. Actually he has been called upon to handle one of the most delicate and complex operations in our century—the evolution of a new foreign economic policy to match America's new and formidable position as the biggest creditor nation in the world.

It was only in recent months, when the devaluation issue got into the headlines, that the full scope of America's task became apparent, and policy-makers came to realize that only the most adroit economic statesmanship could achieve it without shattering the postwar truce between business and government.

Few people realized this when General Marshall tentatively put forward his foreign-aid idea at Harvard in 1947. He had made a commitment that was to put America into the business of world reconstruction for years to come. No one could foresee the magnitude of the promise then. It was the prevailing impression that the plan could be honorably fulfilled in four years as an emergency expedient, politically desirable to bribe western Europe away from an impending flirtation with the East, morally admirable as a means of relieving Europe from the visible devastation of war. The emergency would pass, it was felt, when Marshall Plan money had filled up the bomb craters. After that things would take care of themselves.

In those terms, the Plan was not unattractive to businessmen. True, a great sum of taxpayers' money was involved. But the extravagance had its compensations. While it lasted, many manufacturers could anticipate large orders from abroad; others would benefit indirectly from the increased economic activity; and still others could hope to dump their surpluses on a Europe which, lacking bread, would be invited to eat cake.

Whatever doubts businessmen might have harbored largely fell away when Hoffman was called upon to administer the Plan. Since he was a self-styled "responsible Republican," President of the Studebaker Corporation, and one of the most popular men in the business world, it was felt that, whatever the political vagaries of the State Department and the White House, the businessman's stake in the Marshall Plan would be capably defended. (It is reported that because of the need for this reassurance, Hoffman was nominated at the behest of Senator Vandenberg, as a *quid pro quo* for Republican support of the program.)

If there was any confusion about how big the businessman's stake was to be, however, Hoffman at once took pains to dispel it. The Marshall Plan, he said, was defined by law not as a

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"relief program to subsidize American surpluses" but as an instrument for genuine European recovery, and the two were not necessarily synonymous. He intended to carry out the law. If any surplus American commodity—coal, cotton, wheat, tobacco—could be bought cheaper by Europe somewhere else, he would, within the limits of the law, encourage Europe to buy it somewhere else.

In many business circles, such pronouncements were received with blank incredulity. In the first year of ERP, Hoffman estimates that 109 special interest groups appealed to him to force greater exports of commodities ranging from coal and oil to aloes, zippers, popcorn machines, typewriters, "perennial horticultural products,"—and opera singers "to improve the Italian morale." Unless compelled to do otherwise by Congress, he showed all pleaders the door.

To a Senate committee, intimidated by high lobby pressure, he explained: "The stake in recovery in Europe is so great for every industry that whatever slight risk might be involved in a temporary abdication—if I can use that word—of the market, it is not a matter of concern to me."

With the inevitable accusation that he was thereby becoming pro-European, he dealt thus at a House committee hearing:

Representative Cannon: "Is your prime purpose the service of the American people, or the service of the people abroad?"

Hoffman: "If I did not believe the program would pay out as far as the American people are concerned, I certainly would have been unwilling to undertake it."

Cannon: "Then we are not undertaking it through any altruistic motive; it is a question of good business rather than charity?"

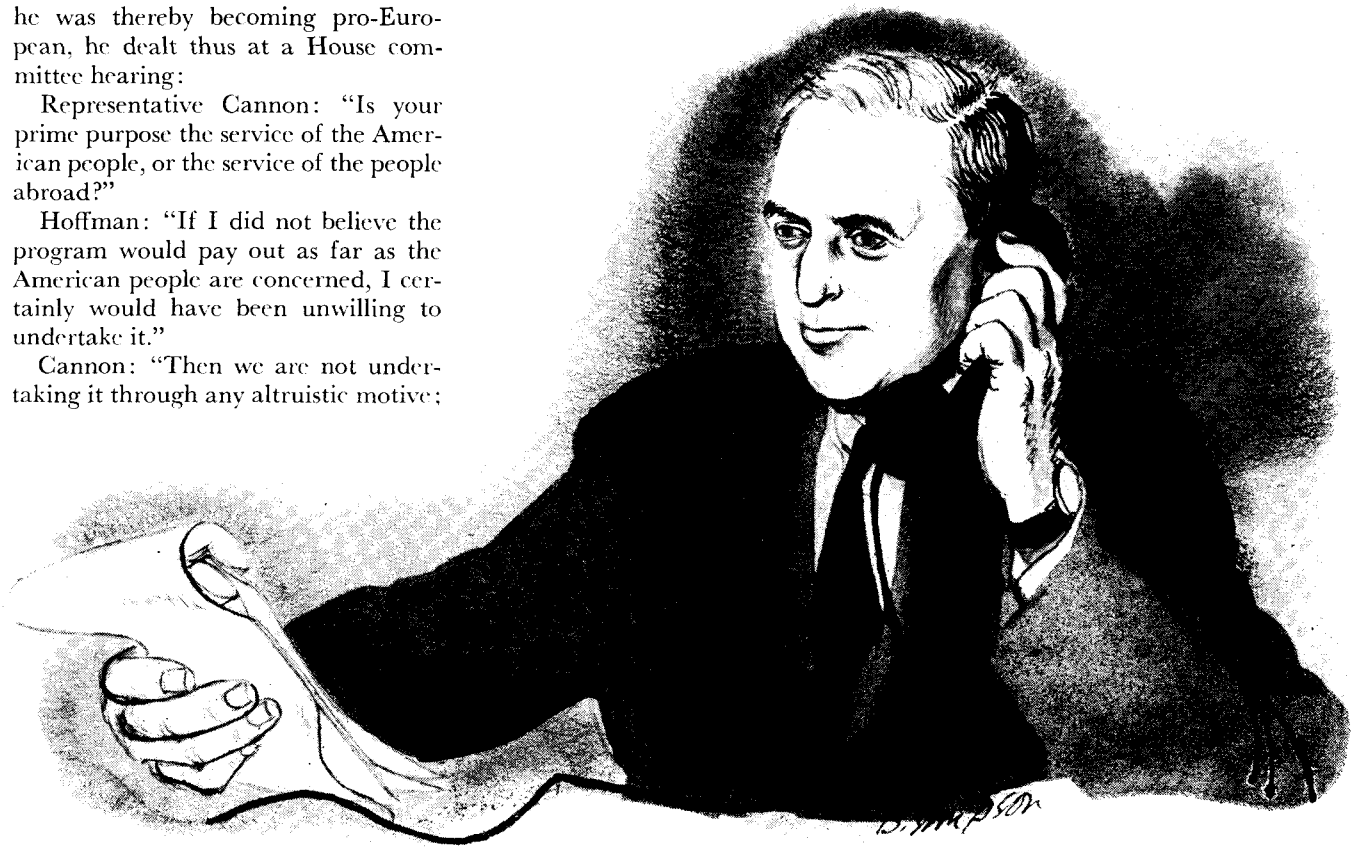
Hoffman: "It . . . is with me, sir."

This conception of "good business" was to put a great strain on the phrase as it was understood in the automobile industry, and as Hoffman himself had for a long time understood it. He was venturing into one of the most concentrated jungles of man-made complexities in the world: an area of entangled trade barriers, jealous nationalism, violently conflicting ideologies, sagging currencies, additional inefficiency in production, and firmly-entrenched cartels.

As he got deeper into the jungle, he strayed further from what many people considered the conventional capitalist position. The capitalist might expect his government's dollars to bring him more orders; Hoffman maintained that Europe should spend its Marshall Plan dollars wherever they went furthest. So far only half of all ERP funds have been spent in America. Few measures distress capitalists more than nationalization of industry; he refused to condemn it solely for its own sake: ". . . we think large areas of the world would be better off if they tried to build up a system of dynamic capitalism . . . but that is their business."

Most businessmen were dead against trade between western Europe and the Russian bloc; he encouraged it: "To try to shut off trade between the East and the West would be biting off our nose to spite our face." Only the hardiest American free-enterpriser would welcome serious foreign competition; Hoffman insisted not only that Europe's productive power be built up, but built to the point where it could compete effectively in America's home and foreign markets: "If I were the only manufacturer of automobiles and if I wanted to have a good business, I would start up some competitors. Why [should I] favor competition internally and become frightened about competion externally?" "If it is good for the *people* of the United States to purchase . . . these goods—and it is—then someone who must face tougher competition because of that shouldn't be allowed to prevail."

Once Franklin Roosevelt had said: "We have always known that heedless self-interest was bad morals; we know now that it is bad economics"—and an outraged business world accused him



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of trying to destroy the American system. Hoffman was taking an essentially similar position.

A few industrialists, like Philip Reed of General Electric, and William Batt of SKF, had traveled the same lonely road toward enlightened self-interest since the bitter New Deal years. But many others, still improvising their economic ideas around the uncomplicated axiom that "a buck is a buck," sometimes wondered if they shouldn't ask Hoffman for their money back. They had settled down comfortably to watch him pull a plump rabbit out of the hat. He seemed to be producing a pretty odd rabbit.

Had they followed his career more carefully over the past fifteen years, they would not have been so surprised. Until then, Hoffman had been a top-flight executive and superlative salesman, with an exuberant faith in competitive free enterprise and the usual quota of tolerance and prejudice. If he was distinguishable at all from hundreds of his associates, it was only by his humility.

In the mid-1930's he became a trustee of the University of Chicago and came into close contact with economists and social scientists. He didn't bridle, as so many businessmen would have. He found that if these theorists did not know everything about business, there was a lot that businessmen did not know about economics. "He didn't exactly change from then on," an intimate friend of his says, "but he certainly grew."

Exposed to novel, often disturbing ideas, Hoffman was drawn deep into an intellectual ferment from which there emerged, in 1942, the Committee for Economic Development. The C.E.D., which he helped to conceive and was the first to head, was a gathering of leaders of industry, education, and the social sciences. It drew businessmen like Henry Ford II, C. E. Wilson of General Electric, and Beardsley Ruml of R. H. Macy's; bankers like S. Sloan Colt of Bankers Trust; educators like Sarah Blanding of Vassar College; and economists like Sumner Slichter.

They had been brought together on the theory that free-enterprise capitalism was the best possible system of economic organization—and that it could be destroyed if the men who made it run failed to understand its nature. The growth and specialization of industry, the development of monopoly and the resulting hazards of small business, the expansion of trade unions, the popular demand for security—all pointed to the need for planning. It had always been a practice among businessmen to plan their own production. It was now in their interests to either plan as a community or have somebody else plan for them.

Wide World

Hoffman sworn in by Vinson as the President looked on

C.E.D. field committees poked up the stagnant pools of business thought in three thousand communities. How could local manufacturers avoid collapse when the war boom was over? Would their labor policy result in profit or loss? To what extent could the government intervene without destroying free enterprise, and how much government assistance did free enterprise need to function properly? What policies would improve the general welfare without injuring businessmen at the same time?

To seek the answers, the C.E.D. set up a Research and Policy Committee, which picked outstanding economists to explore these questions. They were given a free hand to publish their findings, no matter whom they hurt. The committee's trustees acquired the habit of meeting with the economists in shirt-sleeve sessions to wrangle things out. Hoffman attended these meetings regularly. "He would sit there fiercely absorbed," a colleague recalls. "And every now and then he'd say: 'I may be dumb on this stuff, but how about . . . ?' "

What he learned prompted him to say, in a later report: "When I hear [businessmen] give voice to the same old dogmas that prevailed in 1898 and get cheered for it; get cheered for stating eloquently the kind of prejudices that were prevalent at that time, it depresses me. . . . We have got to rid our minds of prejudices which pass for reason."

In the early 1940's, Hoffman was developing a formula for a strengthened capitalist society that dispensed with all the fashionable clichés—a philosophy which, in 1945, he expressed in a little purple-backed pamphlet known in C.E.D. circles as "Paul's 'Toward More of Everything' book." What he wanted was a "high-incentive, high-energy system"—more competition, more production, more material well-being, more security, and more freedom.

Hoffman was gradually cultivating bifocal vision—he could see the hour-by-hour problems of the businessman,

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and, at the same time, he could view the whole context of society in which business was only a part. While still rejoicing in the heady challenge of competition, he now recognized that the government had to maintain a safety net beneath it. Big government not only was not an evil; it was a positive good: "We have got to face the [fact] that the Federal government plays an important part in our capitalistic system. Those who claim that all we have to do is 'unshackle free enterprise' are guilty of loose, irresponsible talk. . . . The government must plan for competition." There was, Hoffman insisted, room for social progress and free enterprise as well. "The people in this country want a good living, but they want security too. . . . [To say that] because . . . social measures are sometimes necessary to give the people what they want, that means we are a socialistic state, is nonsense."

By the time he was nominated to the ECA post, Hoffman had been conditioned to ride out storms he now knew he might not always foresee. He had sweated over his theories enough to be ready to put them to a global test. At the same time he had, as one of his assistants says, "acquired just the right mixture of respect for unpleasant truths and irreverence for sacred cows."

If it had not been for what at times seemed almost a glandular inability to be ruffled, he might have gone to pieces at the start. He had, first, the appalling job of trying to put Europe together. No matter how great his selling power, it was almost impossible to expect that he could sell the Old World his vigorous notion of a high-incentive, competitive system. He might (and did) accomplish minor miracles. But over-all progress was heartbreakingly slow. To his carefully amassed body of economic doctrine he was adding an understanding of international diplomacy.

As if his task in Europe were not enough, he was tugged by strongly conflicting currents at home. There was the State Department, which worried about the political sparks Hoffman might let fly abroad. There were the businessmen with something to sell. There were the self-righteous, flag-wrapped isolationists, and the Communist misanthropes who predicted failure from the beginning and prayed they would be right. And lastly, there was Congress keeping a beady eye on its own prerogatives.

The fire that Hoffman has drawn on the Hill has by no means been limited to carping, malevolent, or trivial questions. Much of it has come from serious and responsible lawmakers who had begun to suspect things were going wrong in Europe.

"It is hard," a British official pointed out recently, "to dramatize the dollar gap." But the ABC Conference in September revealed that the crisis that had been germinating in Europe since the war was bordering on tragedy. It had at last become clear that in spite of the Marshall Plan, Europe, as the OEEC had said, "was not on the road to genuine recovery." Four years of feeding goods and dollars to Europe would not be enough to bring about permanent reconstruction. The prewar fabric of trade was irretrievably destroyed. The United States was exporting twice as much as it was importing, and its debtors were not on the way to earning enough dollars to pay it back. Without the Marshall Plan, they would already have been bankrupt. Even with it—unless other drastic measures were taken—there would be a world dollar deficit of five billion a year in 1952.

This was what officials meant when they warned that America had to "recognize its responsibilities as the world's creditor nation." Somehow the gap would have to be made up, whether by permanent giveaways like the Marshall Plan, or by a greatly increased flow of private investment abroad, or by an American willingness to accept a tremendous increase in imports from ERP countries (the principal objective of devaluation).

In all likelihood the required policy would have, in one way or another, to embrace all three. It would have to be a plural policy distributing the burden among private capitalists, government, and the public. In an attempt to make a rough equation for 1952, a high government official outlined a formula like this: Private investment, now nine hundred million dollars yearly, up to two billion; American exports to Europe, down by one billion; American imports from Europe, up by one billion; and the last billion to make up the deficit would be covered by direct or indirect government subsidies, Point Four technical assistance, and the Export-Import and World Banks.

Although others argued that this was perhaps too pat, it was generally agreed that each of these factors must be involved in greater or lesser part; and there was no tendency to underestimate their perils.

The cut in exports and jump in imports could create damaging dislocations in American industrial life, and turn manufacturers and unions against the program. (Already, since devaluation, complaints from American textile manufacturers and the CIO Textile Workers Union are being discussed at the Cabinet level.) The suggestion of recurrent, if not permanent, government subsidies would almost certainly frighten an increasingly economy-minded Congress. But more than any other factor, the problem of private investment raised grave questions for Washington. With the current uncertain conditions abroad, it would be difficult to attract enough private capital, even with government guarantees against special risks, like expropriation and inability to convert profits into dollars. If capital did not flow, a large area of the world might face bankruptcy. If large American sums went abroad, this might imply an infringement on the national sovereignty of the countries that receive American assistance.

Consistent with his free-enterprise convictions, which experience has made more flexible but not destroyed, Hoffman believes that "every effort should be made now to encourage private capital to flow"—but he tacks on the proviso that "there is no place in the world today for nineteenth-century ideas of exploitation and imperialism." He concedes that the government must play its part too, both in giving moderate guarantees to investments in special high-risk areas, and in extending loans and grants on its own. And he puts great emphasis on the fact that certain groups of Americans must suffer some discomfort if the world is to earn more dollars.

Along with many other men in government, he is still feeling his way toward the eventual solution. His contribution from now on can be decisive—the most crucial lap on his journey from salesmanship to statesmanship.

—CLAIRE NEIKIND

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The Facts of Economic Life

Some excerpts from a speech delivered by Philip Reed, Chairman of the Board of G. E., before the International Chamber of Commerce

Businessmen throughout the world today are on trial. Two of the tools they have devised—the corporation and mass production—influence the lives and livelihoods of most of the people in the world. As a matter of fact, the basic problems of mass production and industrial enterprise are *exactly alike,* whatever the "system" under which a country operates, whether capitalist, socialist, Communist, or fascist. Changes in the system will not remove these basic problems. Indeed, the solutions we find—or fail to find—for the problems of mass production and industrial enterprise, will decide under which system we shall live, and whether that system shall be free.

In my opinion, it is easier to make a social thinker out of a businessman than it is to make a businessman out of anybody else, for most businessmen realize that what is good for all of the people of a country is, for that very reason, good for business.

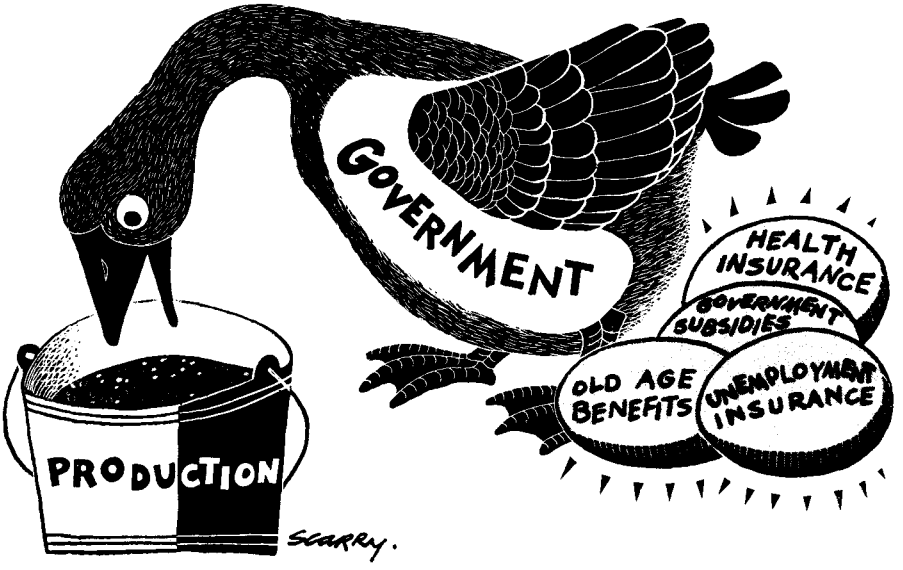
Businessmen—large, medium, and small, from more than fifty countries—have joined the International Chamber of Commerce. They work with each other and with their governments to the end that everything possible should be done to encourage the expansion of world trade, the elimination of unnecessary obstacles and barriers to the movement of goods, people, and services, the creation of more and steadier jobs—in short, to provide opportunity for all of us to produce more, and thus to have more.

To further these ends, the International Chamber of Commerce has carried on extensive studies, working out not only policies aimed at restoring an environment in which that indispensable element of better living and material happiness, production, will be accelerated, but also a long list of specific technical proposals to ease the frictions, blockages, and costly delays from which world trade has increasingly suffered during the past twenty years.

One of the fruits of this work—the International Code of Fair Treatment for Foreign Investments, which the Interstate Commerce Commission drew up early in 1946, has had an effect of reversing the emphasis from *government* financing to *private* investment. The thinking both in the United States government and in the U.N.'s Economic and Social Council was profoundly affected by this work.

But, in general, the views and urgings of businessmen between wars and since the last one have not been well understood or accepted either by governments or by the electorates that put and keep them in power. Why, then, should businessmen continue to spend many thousands of hours preparing recommendations which, historically, have little chance of adoption? What assurance is there that the world is not destined to proceed down the interwar road to more nationalistic attitudes, more restrictions and restraints on production and international trade, more economic and political tensions, and ultimately more war? The answer is, of course, that we have no assurance that this will not happen. It can be said with great positiveness, however, that if businessmen in the countries of the free world do nothing to prevent these things from happening, they will surely and inevitably occur.

Who understands as the businessman does the frustrating, sterilizing effects of government competition and bureaucratic controls? Who is better equipped with experience, material resources, incentive, and downright responsibility to his fellow citizens to state the facts on this all-important issue, and to sell the right course of



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action as he has never sold before?

It would seem clear, therefore, that businessmen in all countries—locally through their domestic business organizations and internationally through the International Chamber of Commerce—must continue to study and analyze with great honesty and objectivity the economic problems of the day, and voice their findings and recommendations to their governments and to their fellow citizens with all the vigor and persuasiveness they possess.

But this, it appears, is not enough—as witness the experience of the interwar years. Governments, and the men who make them up, are responsive to the will and understanding of the people they represent, and businessmen must launch a widespread educational program. For in no other way than through wide understanding of, and insistence upon, certain fundamental yet simple principles can a democracy protect itself from slow disintegration.

On Labor Day, General Dwight D. Eisenhower gave a concise and brilliant statement of the three fundamental principles of American life:

"First, that individual freedom is our most precious possession. It is to be guarded as the chief heritage of our people, the wellspring of our spiritual and material greatness, and the central target of all enemies—internal and external—who seek to weaken or destroy the American Republic.

"Second, that all our freedoms—personal, economic, social, political—freedom to buy, to work, to hire, to bargain, to save, to vote, to worship, to gather in a convention or join in mutual association; all these freedoms are a single bundle. Each is an indispensable part of a single whole. Destruction of any inevitably leads to the destruction of all.

"Third, that freedom to compete vigorously among ourselves, accompanied by a readiness to cooperate wholeheartedly for the performance of community and national functions, together make our system the most productive on earth.

"In the industrialized economy of the twentieth century, [our] path lies down the middle of the road between the unfettered power of concentrated wealth on one flank and the unbridled power of statism or partisan interests on the other . . . down the center, even though there the contest is hottest, the progress sometimes discouragingly slow.

" . . . It is the area in which is rooted the hopes and allegiance of the vast majority of our people."

A grass-roots educational program of the kind I visualize should include, besides the fundamental principles, a simple and convincing presentation of the basic economic facts of life. For example, millions of people do not realize that a country's standard of living is determined by that country's production of goods and services. They

forget that money is just a certificate of exchange, a convenient way of avoiding the actual barter of goods and services, and that the only way we can really earn more is by more production.

Nor is it generally understood that social and economic progress *must be twins.* Government subsidies, unemployment and old-age insurance, health benefits, and all the rest, are made good not by the promise of the government but by the production, the output, of the country. Everybody wants these social benefits, but they can become and remain a reality only so long as the economic system of the country is vigorous and strong. In a steadily rising production of goods and services lies *the only hope* of social progress.

The man in the street also needs a clearer understanding of how increased production is achieved. Everyone knows that a worker in any up-to-date manufacturing plant today produces very much more in a week's time than he did, say, twenty-five years ago, without working as long or as hard. Most people do not sufficiently understand that the worker's arm has been "lengthened" by his employer, who provides him with power tools and specially-designed production equipment which enables him to produce many times what he could produce with his hands or obsolete tools. Money, the savings of investors or the ploughed-back portion of corporate earnings, must be spent to buy the tools and equipment.

The whole subject of incentives must be reduced to simple, understandable terms. It is incentives plus freedom of action that distinguish a free from a slave state, a vital, growing economy from a static one. There *must* be adequate incentives, for those who perform any function essential to the operation of the economic system. Thus the worker, the management, the investor and the customer, must be provided with *inducements,* in order that lively self-interest will make each do his part more efficiently.

Business is beginning to recognize the responsibility and opportunity it has in the field of adult economic and social education. This is not the job of one organization, or even of many organizations; it is the job of all business—individual concerns as well as groups. The International Chamber can play a useful part, not only by improving and enlarging its own informational activities but also by acting as clearing house for the results achieved in all its member countries.

We Americans must appraise for ourselves the values of such a program in our own country. Not the least of them is that it will help the United States behave like the creditor nation it is—to encourage, not resist, payment for our exports in the only way they can be paid for—by the sale of more foreign goods and services in our market. The Reciprocal Trade Agreements Act has just been extended two years, an encouraging sign in itself. I expect to see before long a demonstration of the fact that any soundly-governed country desiring the benefits of foreign private capital and technical skills need only evidence that desire by creating a climate not unfavorable to foreign risk capital, and the flow of it in ever-increasing amounts will promptly begin.

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Our Collectivized Capitalism

A. A. Berle, Jr., points out that concentration of capital is squeezing out the private risk-taker

Capitalism is supposed to be at its triumphant best in the United States. It is disquieting, though amusing, to realize how little is known about "capital"—where it comes from, how it is made, and by what processes it achieves gainful or useful occupation. We still think of "capital" as savings scraped together by thrifty individuals and risked by them in business enterprises formed to produce and sell useful goods or services. Financial and economic journals are filled with articles complaining of the apparent unwillingness of individuals to take business risks with their capital. It is said that too little "risk capital" is being supplied, and that American investors have lost their daring. This is chiefly emotion. Perhaps the emotion will be turned to more useful ends if we look at some important financial facts.

Capitalism (like socialism, or democracy, or pretty much any institution) has never been static. Its basic mechanisms today are no more like those described by Adam Smith than a modern airplane is like a stagecoach. No element in it has changed more dramatically than capital itself.

The stark fact is that the accumulation and application of capital have now largely ceased to be performed by individuals. These processes have been collectivized. In part this has occurred because of the increasing intervention of the state. In far greater measure it has resulted from the growth of large corporations. This is not to suggest that the latter development is either good or bad. It is there—and it has to be understood.

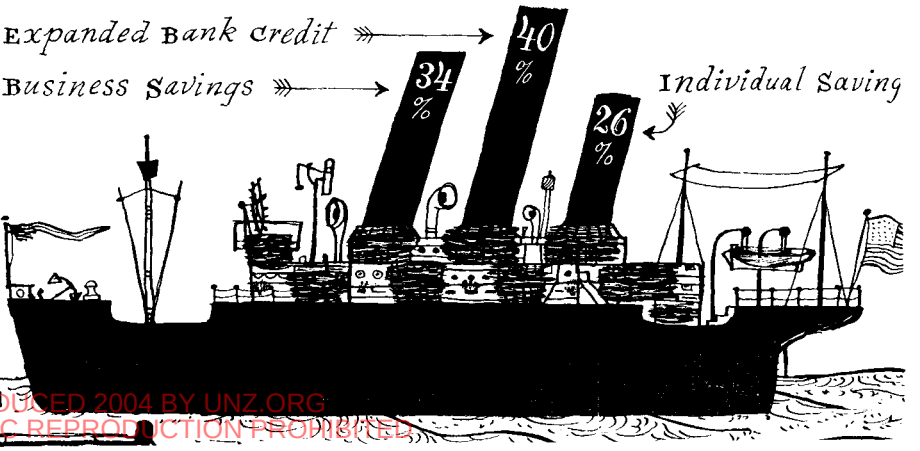
How little capitalism knows about itself is sufficiently indicated by the fact that the only worthwhile statistics on sources and formation of capital began to be collected in 1919, and the only really good series began to appear in 1934. Putting these together, we can get a fairly clear picture of the last thirty years. As to the situation before that, all we can do is guess. Out of these figures, a competent economist, Dr. Irvin Bussing, has given us the best estimate we have.

From 1919 to 1947, the United States accumulated altogether a gross capital of 770 billion dollars. This includes capital that went into public works, all forms of durable producer goods, and housing. Where did it come from?

Thirty-four per cent—262 billion—came from the savings of current businesses. These were almost entirely business profits that were kept in the business, instead of being distributed as dividends or otherwise. They could have been distributed to shareholders. They weren't; they were held for capital development of the businesses.

Forty per cent—310 billion—came from expanded bank credit, which went up especially during the Second World War, when the government put huge sums into new plants. Classical economists and bankers say that bank credit is not supposed to be used for risk-capital purposes—but President Harold Moulton, of The Brookings Institution, demonstrated some years ago that it could happen. The figures show irrefutably that it did. Bank credit is really manufactured money, and produces some of the effects that printing-press money would produce. But, as long as it works, bank credit will buy materials, pay help, and build factories (so, for that matter, will printing-press money), as well as any other kind of money—though, if the process is overdone, the aftermath is inflation.

Only twenty-six per cent—198 billion—represented current savings of individuals. Adam Smith would recognize *his* "capitalists" in this group. Roughly, just one-quarter of all the capital used was provided in the way we think of as classically capitalistic. Here, an individual had his hand on savings which he did not propose to spend currently. Having decided to invest them, he could determine whether to start a restaurant, buy some stocks, purchase a utility bond, or take a flier in real estate. As we shall see, what he actually did in most cases was avoid such choices, and put his money in an insurance company, a savings bank, or government bonds, leaving the gentlemen who direct insurance companies, savings banks, or governments to decide how to use it.



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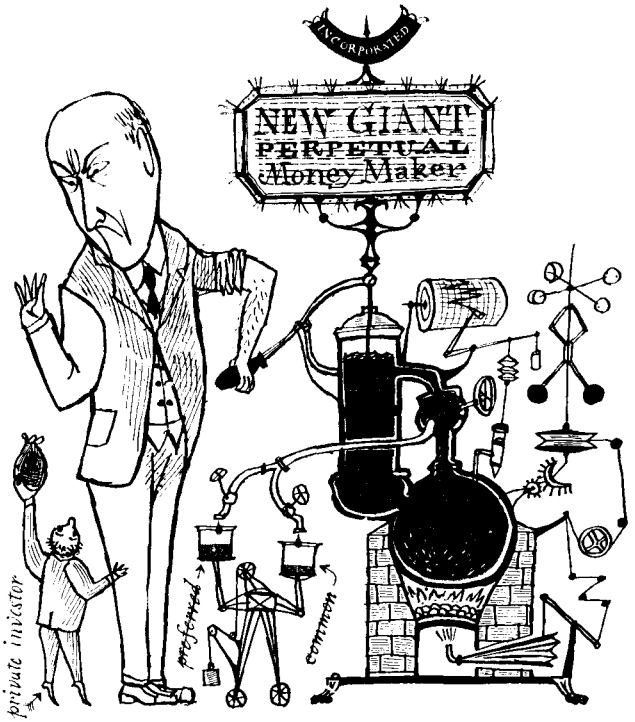

THIS MODEL *for* LARGE CORPS. ONLY

What all this adds up to is that three-quarters of American capital in the past thirty years has either been conscripted by taxes, or acquired by withholding profits from shareholders and partners, or created through bank credit. The remaining one-fourth was scraped together by individuals, most of whom promptly delegated their power of investment to one institution or another.

This 770 billion was "invested"—that is, somebody put it into plants, or housing, or the like. How was that done?

The block that was saved out of business profits—262 billion, as we have seen—was invested by the businesses that made them. In other words, invested by the boards of directors of corporations, chiefly big corporations. Many of these big corporations have not looked for private capital for years, and don't intend to now. General Electric, General Motors, Standard Oil of New Jersey, du Pont, and other industrial giants have sought very little outside capital, if any, for a solid generation—and during that generation they have grown tenfold. It is they who have taken the risk ventures—financed the new inventions, pioneered the new oil fields, introduced nylon, or the radio, or a new chemical process.

It is apparent from this that the expansion of the American capital plant has not been made possible by the thrift of individuals and their conscious choice of a field of investment. Corporations sell the goods they produce, or the services they provide, for more than cost, and then devote part of the profits to their capital funds. In the industrial field, although not in public utilities and railroads, this is the typical way businesses do grow, and are still growing. Almost no concerns turn over all their earnings to shareholders; many of them pay out no more than half of their earnings, and save the other half.

The second block—310 billion in bank credit—was "invested" by the banks, and, to some extent, by bondholders who were being paid off. But a bank's business is to take as few risks as it can—to lend its money for use in business operations that have already proven themselves. The bank credit extended to war plants, of course, was in most cases virtually guaranteed by the government in one form or another. Little, if any, of this represented individual risks. As a general rule, indeed, bank credit is not readily available for capital operations, though the rule is emphatically modified in wartime.

For practical purposes, bank credit can be dismissed as a source of risk capital. And when bank credit is made available for capital purposes, the objective is strictly limited, either by the bankers or by the government's regulating authorities, or, as in time of war, by the government itself. Anyone who tries to borrow money from a bank to increase the size of his factory finds that out fast enough. If the government is sufficiently interested in the job to guarantee repayment to the bank, the borrower has no difficulty—but in that case it is the government's decision, not the banker's.

Slightly over a quarter of the total amount of capital—198 billion dollars—was provided by current individual savings. This is where the personal capitalist, or investor, came in—with, it would appear, quite a sizable sum.

But the personal investor practically signed off. This implies no criticism of him. He did just what everybody said he ought to do. Thriftily, he put his money into savings institutions (sixteen per cent of the 198 billion), or into life-insurance companies (twenty-one per cent), or savings bonds (ten per cent), or into his bank for current cash reserves (nineteen per cent). The remaining third of the 198 billion he invested—most of it in durable goods for personal use—houses, cars, and refrigerators. What was left, he could—and did—invest as Adam Smith's capitalist was supposed to.

Skipping the analytic arithmetic, the fact appears to be that, in the twenty-nine years from 1919 to 1947, some of this old-style investment went into respectable corporate bonds, and *only 3.2 per cent of the total was put into risk securities by individual investors.* In 1948, a boom year, only half a billion dollars went into new common stocks, slightly less into preferred stocks, and about five billion into bonds and notes. The bulk of the preferred and common stocks probably was bought by individuals; the bulk of the bonds by institutions, notably insurance companies. This amounts to about six billion dollars; the national income for the year 1948 amounted to approximately 225 billion dollars.

The conclusion that emerges from all this is that the bulk of risk capital today is "conscripted." One large block is drawn from the earnings of big corporations. Another is made up of individual savings put into big insurance or savings institutions and invested by those companies. Savings and insurance represent, in one sense, voluntary acts of the individual. But, in another sense, they are dictated by necessity, particularly in the case of insurance, which is a "must" item in the budget of every family of even very moderate income. The element of compulsion is imposed by the scheme of things.

Finally, there is capital conscripted by the government, through income and other taxes, and "invested" by the government in public works. If the government did less—and taxed less—there is no particular reason to believe that the private investor would rush into risk-bearing enterprises. More

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likely he would increase his insurance.

Before we get up on a moral high horse and say that something is wrong, let us recognize that everybody who contributed to bringing about this situation was doing what seemed to be—and generally was—the intelligent, practical thing. Let us begin with the big corporation.

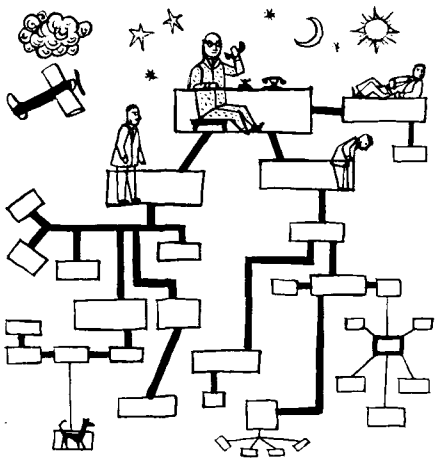
If a corporation wants to branch out, about the most dangerous and expensive way in which it can seek money is to go to the capital markets. Investment bankers and commission men take their cuts, and want to be put on the board of directors. Intriguers and intermediaries maneuver for jobs and power in the corporation. The corporation, like an individual, has full liberty of action only when it has money in its own sock, and can spend as it wishes. The obvious way of getting its own money is not to distribute all its profits, but to build up a reserve. Still more obviously, it is sound policy to use this money in the corporation's own business, which it knows, and is equipped to handle, rather than to put it into extraneous ventures. If this produces some of the effects of a trust for perpetual accumulation, it also makes possible daring and capable business development.

What is more, the corporation, once it is large, can take risks that no individual ought to take. If ten wildcatters sink wells, nine of them lose their shirts; the tenth may make a large fortune. This is a one-in-ten shot. But a big oil company will take ten calculated risks, expect to lose on eight of them, and more than make up the loss on its two successes. By spending additional money on research and exploration, it can increase its chances of winning from one in ten to two in ten, and thus somewhat reduce the risk—which individuals can rarely do. And it can average its risks, which individuals cannot do at all. Also, it can wait for the profits to come round—whereas an individual may at any time need his money to pay for the baby's shoes or to settle his inheritance tax with the government. An individual would be a plain fool to tackle, single-handed, the kind of risk that Standard Oil of New Jersey or the du Pont Company can accept as a part of normal business operations. Every responsible financier tells him so. Consequently, he is right in putting his savings into an insurance company—which can do, in its limited credit field, what du Pont or Standard Oil can in the industrial one.

The corporation, from its point of view, has been sensible and constructive in saving up its earnings. The private capitalist has been sensible in opting for investment in insurance and in savings banks rather than taking fliers in the stock market, in partnerships on inventions, or in wildcat oil.

All parties to this system are behaving quite as they should. On the strictly economic side, its results have been first-rate—if American production and the American standard of life are fair criteria. Certainly per-capita production in the United States is higher than in any other country. We wanted a capital plant, and we have one. We seem to want and to enjoy the product it turns out. We have a collectivized method of capitalism which apparently provides for and makes possible continued expansion. The system has some faults, but no one can honestly claim that it has not worked.

Yet there are questions—and they are grave indeed. They are not, it seems, the questions raised by the financial journals. The questions, doubts, and complaints about our system of capi-



talism are, in fact, very much like those that the conservative journals are leveling against socialist governments.

To begin with, any talk of "rugged individualism" in this layout can inspire only gargantuan laughter. The big corporations, which prudently withhold, and properly invest, hundreds of billions of dollars, conscripted (on good grounds) from their stockholders, have knocked the "individualist" theory into a cocked hat. These corporations are administered by tiny groups of men who have little ownership stake in the concerns they manage—by a small oligarchy of more or less professional executives. The socialist or government-owned enterprise is also managed by a tiny oligarchy. The interiors of a corporate bureaucracy and a government bureaucracy are surprisingly alike. The pertinent question is not whether capitalism should be run collectively—it *is* run collectively—but how the administrators of it should be chosen and to whom they should be responsible. The chief questions are whether the administrators shall be chosen from a political-bureaucratic class or from a business group, and whether they should be responsible to God and their consciences, or to some more or less orderly process of public opinion. The real struggle is over where power should be lodged—not over the nature of the process.

Yet that struggle is crucial, if there is a real difference in objective between the administrators of a state collectivism and the administrators of collectivized, conscripted capital. It is easy to imagine a government bureaucracy, avid for power, using its position to forward the personal ambitions of the bureaucrats. It is equally easy to imagine them as selfless men, seeking the greatest good for the greatest number. It is possible to imagine a group of business administrators taking a purely professional point of view, and seeking to maintain a well-run economic system, isolated from some of the passions of passing politics. Or, if you like, easy to portray them as seekers of private wealth and power, using the corporation as an avenue to riches and prominence. Apparently our real struggle here lies not in the mechanism so much as in the philosophy and ideas which control the men who rule the mechanism. There is, of course, Justice Brandeis's argument that no men living were capable of measuring up to responsibilities of this size, either in private or in public administration. But that idea involves recasting state and business alike, and no methods of doing it have yet appeared.

At all events, we have a situation in which, on the capital side, collectivism has arrived without grace of the socialists, and a large part of our internal

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economic development turns on the habits, intellectual processes, ideals, and character of its administrators.

And when the United States turns abroad—as it seemingly must—the facts indicate that the capital needed will have to be provided either by big corporations or by the government. General Motors and General Electric, not John Citizen, will be financing President Truman's Point Four Program for developing the backward areas, if that program ever gets started. It will be done by the establishment of Brazilian or Ethiopian motor factories or refineries, probably branches of American concerns financed from the accumulated surplusses of those concerns. Or else straight loans from the Export-Import Bank will finance such projects as power developments on the Blue Nile or the Paraguay River. Gone—or almost gone—are the days when, as in the last century, a promoter went to Wall Street or to the City of London, to induce some banking house to peddle shares in his new company.

Internally, there will be fewer self-made tycoons big and little, who work the family brickyard into a nationwide building-materials company, or who catch a new invention in plastics or electronics on the fly. Their equivalents will be employees of big corporations, headed for solid vice-presidencies. The other kind of tycoons will still exist, of course; but, oftener than not, they will bring their tycoonship into the port of realized liquid wealth by selling the businesses they have created to the all-devouring large corporations.

This is "capitalism" in the mid-twentieth century. You can like it and proclaim it triumphant, as does Professor Louis Hacker of Columbia, and make a good argument for the claim. You can dislike it and attack it as a system, and offer good grounds for worry, as does Justice Douglas. You can wonder whether we are halfway along toward inevitable socialism, or whether collectivism in non-statist form slows up capitalism to a point where individuals once more emerge. But you have to face the fact, with all its implications, that modern capitalism is also collectivism. Some administrators of collectivism can send you to jail. Ours can't. In some ways, though, the corporation executive is first cousin to the commissar.

Common Stock Goes Begging

Prompted by the preceding article, an economist suggests measures to encourage private investment

The stock market these days is extremely quiet. Only twice in the history of the New York Stock Exchange have common stocks sold at lower prices in relation to asset value: in 1942, the blackest year of the war, and 1932, the blackest of the depression. Such common stocks as General Motors and du Pont are, in terms of earnings or dividends, twice the bargain they were in 1939. But even so, transactions on the New York Exchange on a typical day involve about eight hundred thousand shares—less than one-twentieth of one per cent of the total number listed; in the late 1920's, two- and three-million-share days were common.

What does this mean for the economy? Many economists believe that unless the public starts buying more common stock, we will run into a serious shortage of risk capital. Others attach less importance to the role of the individual investor. But from either point of view, it would be dangerous if the market for common stocks continued to contract. If our economy is to keep expanding, if our living standards are to keep improving, we must invest at an increasing rate. Our population is growing, and our production techniques depend increasingly on the use of new, and more expensive, machinery.

Expansion will require risk capital—not only from the present sources but from new ones. We cannot afford to ignore any sources of funds, and least of all, the huge sums potentially available through wider public buying of common stocks.

The demand for common stock has dropped for several reasons. Foreign investors, in their quest for hard money, have had to liquidate big holdings. Many American investors have been cautious about re-entering the market since the crash of 1929 and the smaller one of 1937. The tendency of many corporations in recent years to hold back large percentages of earnings as undistributed profits has made common stocks less attractive. The recurrent readiness of many analysts and public figures to picture each new downward fluctuation as the beginning of another great depression has exerted another discouraging influence on would-be investors.

But the most important reason common stocks are no longer in high demand is the severity of our income-tax laws. Historically, the wealthy have provided the bulk of new money flowing into common stocks, but they now have fewer funds, and less incentive to buy. In 1929, a person with an income of one hundred thousand dollars a year had eighty-five thousand after Federal taxes; today that income is reduced by taxes to less than forty-one thousand. Moreover, the disposition to seek out tax-exempt securities and ignore other investments has been enormously increased; with taxes as high as they are, a two-per cent, virtually riskless, tax-exempt municipal bond is as good an investment as a common stock paying ten per cent for a person with an income of a hundred thousand dollars a year.

This drop in the demand for common stocks by the very wealthy has not been offset by increased purchases on the part of the moderately well-to-do, in spite of the nation's threefold increase in over-all income since 1939. The prosperity of the lower and middle classes has been reflected prin-

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cipally in larger purchases of life insurance, savings bonds, and in other virtually risk-free investments.

If it is important to have a strong market for common stocks, and if we do not now have one, what can we do about it? Clearly, a return to the tax laws and attitude of the 1920's would be as impossible as it would be undesirable. There are less sweeping changes, however, which would be both desirable and effective.

One such measure would be the passage of state laws to permit life-insurance companies to buy moderate quantities of common stocks. The assets of these companies now compose the nation's greatest single concentration of individual savings—some fifty-six billion dollars—an amount that is increasing steadily. If even a small percentage of this hoard could be applied to common stock, the supply of risk capital would be greatly increased.

Another feasible move would be the amendment of Federal income-tax laws to exempt corporate dividends from double taxation, and permit the averaging of capital gains and losses over a longer period than a year.

Steps could also be taken by marketers of common stocks to inform the public more fully about investment opportunities. A recent survey disclosed that sixty-four per cent of all executives earning over five thousand dollars a year had never been approached as prospective securities buyers. Statistics show, as a matter of fact, that only one American in thirty owns any common stock. By the same token, the possibility of promoting voluntary employee-purchases of stock should be much further explored. If a typical large company like Goodyear could sell one hundred dollars' worth of its stock to each of its employees, its equity base would be expanded nearly ten per cent.

Measures like these would inevitably permit a greater flow of capital to meet our economy's vast investment need. If they are not taken, the conditions described by A. A. Berle in the preceding article will undoubtedly persist. In the long run, America would become increasingly dependent upon the government to initiate and finance its economic development—the more so as the need for investment grew and private investment diminished.

—Vincent Checchi

Trusts: Boon or Curse?

Bigness, a perpetual problem, still confronts us; we still can't decide whether we like or fear it

The American economic system is characterized by huge businesses, and by resolute government strictures against them. The antitrust laws form fixed and unique features of our political landscape. No politician would urge their repeal. But while both statute and custom are dedicated to the ideal of competition, our economy has gone on implacably developing the bigness, concentration, and combination which severely limit, even if they do not actually wipe out, competition.

Now there has been launched in the courts the severest test yet of our national devotion to the whole antitrust idea. The Department of Justice, having won a series of legal victories over "monopoly," which seemed to leave the foe as well entrenched as ever, has embarked upon a string of cases in which it seeks outright dissolution of certain big combines. The courts are asked to divorce Western Electric from Bell Telephone; to split up the Big Four meat packers; to divest the du Ponts of their control over General Motors and U. S. Rubber; to destroy the vertical integration of The Great Atlantic & Pacific Tea Company. This game is for keeps, and the outraged cries of the defendants suggest that they know it.

The philosophy of the new antitrust offensive was expressed before the Celler subcommittee of the House Judiciary Committee by Attorney General Tom Clark, before he ascended to the Supreme Court, and by Assistant Attorney General Herbert A. Bergson, head of the Antitrust Division. Both made it clear that in their opinion modern "monopoly" often means domination of an industry by a big three or a big four, and that domination may be achieved by uniform conduct as well as by overt "conspiracy."

For many years the Supreme Court did not believe that bigness alone was a form of monopoly power. It proclaimed a "rule of reason," according to which U.S. Steel was held innocent, because, though it bestrode the industry like a colossus, its acts were not construed as imposing "unreasonable" restraints upon trade. The Justice Department's present offensive directly challenges this thinking. It is based upon the view that bigness in itself may throttle competition, through price leadership, tacit regulation of output, the control of raw-material sources, patents, and other devices. Markets may be divided and competitors excluded, according to this theory, even without secret conspiratorial meetings or any of the formal apparatus of a "trust."

The courts have seemed to be moving toward the same point of view. They no longer insist that *abuse* of monopolistic power must be proved. The mere *existence* of such power is taken to be an evil. It is to be noted that President Truman's two most recent Supreme Court appointments were Clark, and Circuit Judge Sherman B. Minton of Chicago, who decided for the government against the A. & P. in a monopoly case this year.

The du Pont suit, filed last summer in Chicago, well illustrates both the scope and the problems of the new antitrust policy. In attacking the du Pont empire, the government was seeking dissolution of a "monopoly" which had presumably been broken once before. After five years of litigation, which began during the Administration of Theodore Roosevelt, du Pont was, in 1912, ordered to divide its explosive business into three companies. Du Pont promptly

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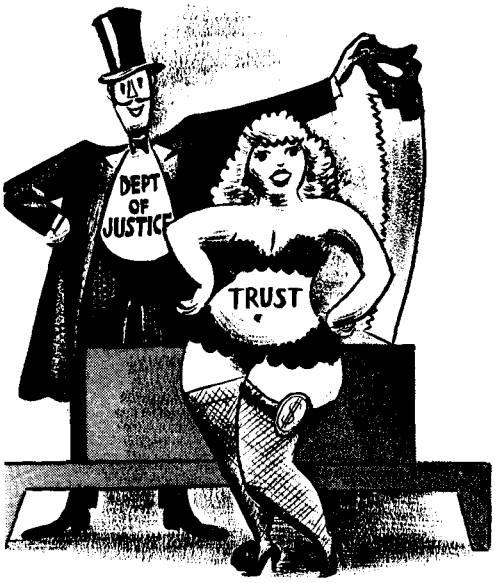
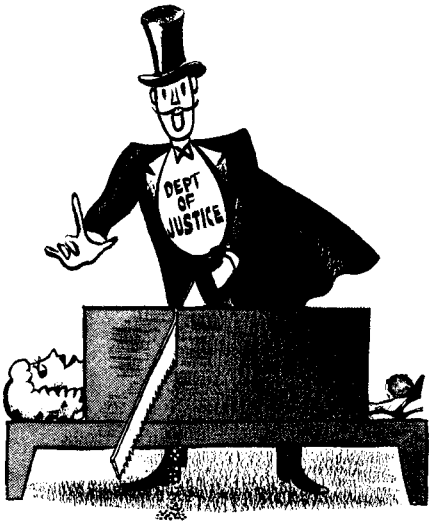


began expanding into other fields. After the First World War, the company bought into General Motors, and started making paints, celluloid, and other materials for the auto industry.

As General Motors expanded, so did du Pont. It bought up paint companies, ammonia companies, and Remington Arms. It branched out into chemicals, artificial leather, refrigerants, rayon, Ethyl fluid, cellophane, film, alcohol, and finally nylon. In 1927 it started buying into U. S. Rubber. Today du Pont is the largest producer of explosives, powder, and chemicals in the United States. In General Motors, it controls the largest manufacturing company in the country, producing thirty-nine per cent of the nation's cars and trucks. In U. S. Rubber, it controls one of the largest manufacturers of tires. Together, the three corporations did a five-billion-dollar business in 1947.

Legally, the charges against du Pont are that it restrained competition among General Motors, U. S. Rubber, and itself, allocating an exclusive field of activity to each; that it gave secret rebates and preferential prices to the two controlled corporations in order to exclude competitors from their businesses; that, through the power of its size, it induced suppliers of General Motors to buy on a reciprocity basis from G.M., to the exclusion of G.M.'s competitors. Wherefore, the government asks that du Pont be required to dispose of its stock in both G.M. and U. S. Rubber, to cancel the intercompany contracts, to dispose of the Ethyl business, and to stand forever enjoined against reintegration. If the petition were granted, du Pont's volume of business might be reduced to about one-seventh of what it is now.

Du Pont's defense, as presented in public statements by Crawford H. Greenewalt, its forty-seven-year-old president, cleverly exploits the public's doubts and confusions about the antitrust laws. Most Americans are temperamentally against big business, but nearly all of them cherish what big business does for them. Du Pont's public statements pay little attention to the charges of rebates and preferential prices, emphasizing rather the advantages of big business and the claim that the government seeks to penalize success. Bigness, as Mr. Greenewalt said, is necessary for some things, such as extensive research. Du Pont spent twenty-

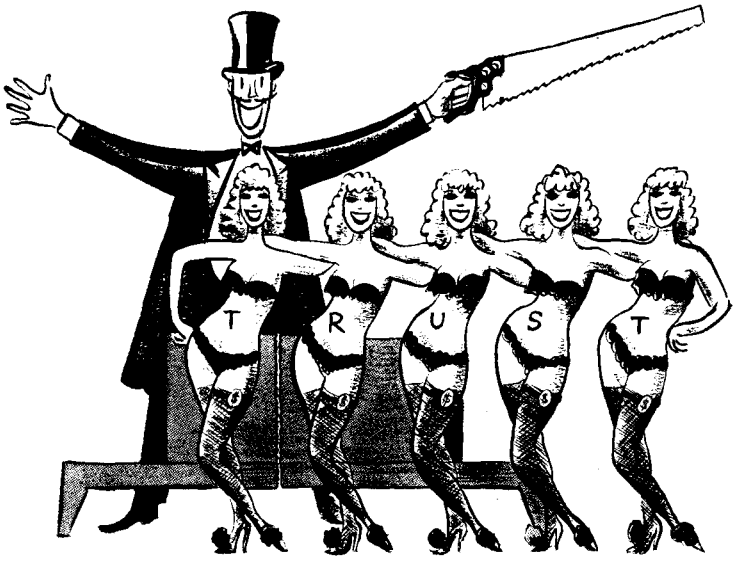


seven million dollars developing nylon before one pound was put on sale. Without big business, says Mr. Greenewalt, America would not have had synthetic rubber, nylon, thirty million automobiles, atomic energy, or victory in the Second World War.

Here, as in so many antitrust suits, the fencers' thrusts seem to be sliding past each other. Competition, in the traditional concept, is a social regulator—a conveniently automatic method of assuring that, without direct intervention by the state, the pursuit of private profit will serve public ends. Admirable as they may be, the obvious advantages of big business—economies of mass production, potentials of research, mobilization of capital—are not a substitute for that sort of regulation. The question always is: How many of the benefits arising from big business can be retained without sacrificing the supposed benefits of a competitive system? Few antitrust suits have seemed to offer the answer.

The trouble with the typical American is that he wants both big business and competition. He wants nylon and thirty million cars, and at the same time he wants an economy that regulates itself in his interest by competition. He wants the security and stability of big corporations, but he also wants the free prices, the rapid improvements in quality, and the variety of options presumed to flow from competitive free enterprise.

This curious schizophrenia in the public mind is well illustrated by the huge sections of our economic life that are exempted from antitrust principles. The Miller-Tydings Act, passed in 1937 and in no evident danger of repeal, allows manufacturers and retailers to fix prices of refrigerators, furniture, drugs, cosmetics, and other consumer goods wherever state laws permit, as the laws do in all but three states. The Clayton Act prevents corporations from acquiring a competitor's stock, but mergers have proceeded at full tilt by the acquisition of assets—and Congress for thirty-five years has resisted all appeals to plug the loophole. The Webb-Pomerene Act, passed soon after the First World War, permits exporters to combine so long as their joint action



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does not raise prices or restrain trade.

Impressive segments of agriculture and the food industry have been virtually removed from the competitive sphere. Not only are farm prices supported by government, but concerted withholding from the market is encouraged. Handlers of fruits, vegetables, and dairy products are permitted to behave in ways that would be illegal for other producers. Under Supreme Court interpretations, labor unions, so long as they avoid overt collusion with employers, can restrict production and fix prices, though employers are forbidden to do so.

Finally, the great and pervasive exemption is one that has arisen without statute, through the steady growth of industrial units to a point where competition becomes "soft," or ceases, at least, to regulate. It can hardly be contended nowadays that the steel industry determines how much to produce and what prices to charge through a struggle for sales, rather than by the calculated decision of its responsible leaders. The automobile industry, which competes furiously in advertising and chrome-plated gadgets, is dominated by three big producers whose power is obvious to all. At the height of the postwar inflation, the automobile industry actually held its prices at a point *below* that of the free market, since "used" car dealers were selling the industry's output at five hundred dollars or more above list price. Was this the behavior of competitors for whom price decisions were made by the market? Or was it the behavior of industrial leaders who had learned to control the decisions themselves?

That the existing immunities have grown up in response to genuine needs does not alter their inconsistency with the antitrust laws. The Miller-Tydings Act was intended to protect small dealers against the price-cutting tactics of chain stores. Exporters were permitted to combine because they often faced cartel competition abroad. Not only farmers, but the public at large, readily grasped the absurdity of demanding that agriculture compete against itself, when so many of the things it buys are removed, in one degree or another, from the field of competition. All this only goes to show how ready we are to suspend the rules of free enterprise when they run counter to other economic goals toward which we are striving.

The problem of antitrust law enforcement, then, is basically a problem of clarifying the public mind on just what kind of economy the public wants. Most people understand that little business is not necessarily efficient business. Industries such as textiles, coal mining, and building construction are filled with small producers, yet they have been slower to reduce costs than some industries dominated by a few, such as aluminum or chemicals. On the other hand, there is a deep-rooted suspicion that bigness grows by what it feeds on, and that sometimes it swells beyond the point of optimum efficiency.

The Justice Department's policy of "divestiture, dissolution, and divorcement" is a bold attempt to draw a pragmatic line somewhere down the middle. Assistant Attorney General Bergson denies that the intention is to smash any industry. "In seeking to split up monopoly power," he says, "it is the policy of the Antitrust Division to have each of the parts remain a strong, independent enterprise."

Thus, in suing recently to break up A. & P., the department did not ask for the restoration of the corner grocery store. It asked that A. & P.'s retail operations be handed over to seven independently-owned food chains, and that its manufacturing and processing business be divorced from retailing. Similarly, the meat-packing suit asks that the Big Four be split into a medium-sized fourteen. The du Pont suit would separate chemical synthetics from automobiles, and automobiles from rubber, but leave corporations of substantial size operating in each field.

The theory behind this approach has been ably set forth by Corwin D. Edwards, in *Maintaining Competition* (McGraw-Hill, 1949). Edwards, who drew up the plan for deconcentrating *zaibatsu* power in Japan, undertakes to provide "an organizational blueprint and a policy statement" for a competitive society.

In setting up standards for the identification of "monopoly," Edwards urges the application of two broad tests: the power to exploit, and the power to coerce. On this premise, a competitive society would regard the number of firms in an industry as too few whenever "the buyer no longer encounters substantial variations in business policy, whether the uniformity . . . is due to a single control, to agreement, or to mutual forbearance." Large concerns would be considered too big "whenever one or two of them are so large relative to the others that recourse to the smaller concerns is unlikely to afford buyers adequate alternatives for escape from the policies of the larger ones."

If our industrial society is to be recast in this mold, clearly a major operation is indicated. Not only would the antitrust laws have to be strengthened, and the present exemptions repealed, but enforcement would have to proceed vigorously toward "divestiture, and dissolution."

The Justice Department's current policy, then, may be driving the American people toward a fundamental decision. Nothing is clearer than that the partial enforcement of partial antitrust laws has not impeded the growth of "monopoly." We are now being asked whether we wish to enforce those laws fully and powerfully, at the cost of a drastic shakeup of existing industrial organization; or whether we wish to ratify the existing industrial organization as one that gives us, roughly, the kind of economic results we want. Should the second alternative be chosen—that is, should the courts, Congress, or public opinion defeat the present antitrust offensive, it will then be necessary to face squarely the question of what form of social regulation, if any, shall be substituted for competition in spheres where we are unwilling to maintain it. —Robert Lasch

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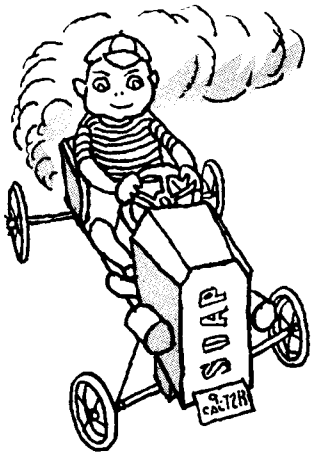
Barnstorming for Capital



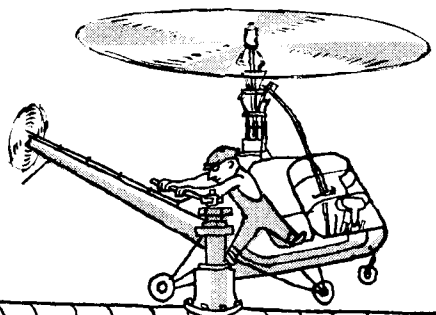
Turned down by the banks, Stanley Hiller financed his new helicopter by air circuses and tent meetings

When Stanley Hiller was six, he built a complex miniature railroad system in the backyard of his home in Berkeley, California. A couple of years later, he put together a small auto out of soapboxes and an old washing machine motor. At twelve, he salvaged a tiny engine from a wrecked model airplane, and built it into a nineteen-inch racing car that went sixty miles an hour, made an angry whine, and instantly came into demand among the male population of Berkeley. Stanley borrowed some money from his father, hired a few friends, rigged a shop in his garage, and began to turn out handmade racers for sale. Then and there, Hiller Industries, and the sport of miniature auto racing, were born.

When Stanley was thirteen—going to school and running a hundred-thousand-dollar-a-year business, with a couple of dozen adult and boy employees—he and his father, a shipping executive, invented a die-casting machine that enabled Hiller Industries to manufacture its own parts, instead of subletting contracts for them. This machine was a major advance: with it, Stanley expanded production to include, among dozens of items, cast aluminum frying pans and water pistols that shot fifty feet. The war in Europe brought the company contracts for the manufacture of magnesium bombs and more than a thousand different parts for fighter planes, and Stanley had to move his operation to a Berkeley plant. His staff went up to three hundred, and his yearly gross to just under a million dollars. Stanley, now fifteen, began to get his name in the papers.

In 1940, Stanley became possessed by the possibilities of rotor flight. To most people, helicopters then seemed infernal or absurd instruments, but to Stanley they represented the next step in mass transportation. By 1942, when he was seventeen and averaging no better than C as a freshman at the University of California, he took blueprints for a new helicopter to one of his professors and asked for an opinion. The professor sighed and told him flatly that his contraption would not fly.

Rejection was a new, but by no means shattering, experience for Stanley. He quit school, sold his interest in Hiller Industrties for something equivalent to a fortune, formed the Hiller Aircraft Company, and beseeched the Services for priorities to build co-axial (reverse rotation) helicopters. The Army was unmoved, but the Navy, which needed rescue planes, gave him an experimental contract, after Hiller had rented a Berkeley garage, and with seventy-five thousand dollars of his own, built an angular craft with pontoons and giant lifting propellers overhead that rotated violently in opposite directions. It had the bad features common to most helicopters then extant: it was difficult to handle, it flip-flopped every chance it got, and its controls vibrated like a cement mixer. But it was the first of its type to fly, and that won the interest of Henry Kaiser. From 1943 to 1945, Stanley developed his helicopter ideas with Kaiser's aid. The two parted reluctantly after the war, when Kaiser began to build automobiles, and Hiller decided to found United Helicopters, Inc.



The next phase of Stanley's career, which began in 1946, resembled, in some ways, a tribal initiation into manhood. He set out after eight hundred thousand dollars in risk capital.

All sides of the matter considered, he should not have had much trouble. His fame as a "mechanical genius" had spread well beyond California; his organizational, administrative, and money-making aptitudes had been proven at Hiller Industries; he was good-looking, well-groomed, visibly assured, and devoted to hard work. Most important, he demonstrated convincingly, on paper, that he could mass-produce a machine that might become the air-Ford of the near future.

It was natural for Stanley to take his project first to the large banking and brokerage houses of San Francisco. When he arrived, he found most of them interested enough, because of his reputation, to call in a few clients. But the clients all started raising objections: the helicopter was too young; Stanley was too young; he had no profit and loss statement; he had no earnings report. After explaining that since there was no company, there could hardly be an earnings report, Stanley set out in some bewilderment for Los Angeles. There he ran into the same quibbles. Then he tried Wall Street. In New York, his presentation of the advantages of rotor flight was far more professional. The helicopter, he explained, was the handiest farm implement since the tractor: it was good for dusting, spraying, and wind-drying fruit, and, in extremities, even for herd-

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ing cattle. Oil and utilities companies, he said, would use helicopters for patrolling pipe and power lines; post offices for mail delivery; the military for observation and rescue work; the police and forest services for general public guardianship. In addition to these uses, he went on, there was the commuter market, which alone could justify production. The old-fashioned shortcomings of helicopters—high cost, inherent instability, and intricacy of the controls—would be eliminated in his machine, Stanley prophesied. Again he was asked for earnings reports.

Back in Berkeley in 1946, Stanley was obliged to revise a few illusions. He still had one experimental helicopter, and a hatful of ideas for better ones. But in six months of continuous promotion, during which he had, directly or indirectly, gotten in touch with a great many famous organizations and individuals who supposedly had risk capital, he had succeeded only in wasting his money and his energies. Now, lowering his sights, he took his project to a small, obscure securities company in Oakland. After a short period of reflection, the company declared it could raise eight hundred thousand dollars for United Helicopters, plus two hundred thousand as a fee for itself, from small investors around the Bay Area. At first, Stanley was rather leery of this procedure. But he had nowhere else to go.

In late 1946, in the cities around San Francisco Bay, there were many ex-war workers, clerks, little businessmen, and pensioners who, unknown to Stanley, were intrigued by his accomplishments and willing to take a chance on him. His story was the same one he had told in many conference rooms, but these people didn't inquire into earnings, or into the ages of the machine and its inventor. Before the fund-raising campaign was more than a few days old, checks ranging from a hundred to a thousand dollars began to come in, some of them from people who had only newspaper publicity to go by.

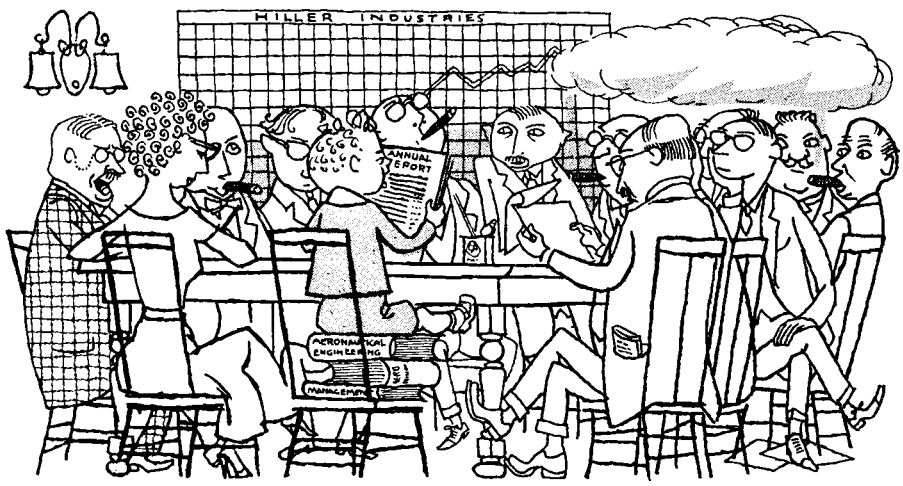
Within a month Stanley had the money to move his headquarters from a Berkeley armory to a warehouse in Palo Alto, California. There, he proceeded to build the helicopter he had long been planning—a co-axial, two-place machine that looked like a small automobile with two huge propellers on top. This ship, called "The Commuter," made national news, and greatly excited the Hiller stockholders, who came in squads from Weed, Red Bluff, and elsewhere in California to behold it. Four months later, when twenty-eight hundred investors had put in the eight hundred thousand dollars, Stanley again revised some illusions. Almost carelessly, he began experimenting with a long-tailed helicopter that had a jet exhaust at the end to counteract torque. This ship, though more advanced than "The Commuter," was gross-looking, and bored the stockholders. Nevertheless, Stanley continued experimenting with even grosser models. By early 1947, he still had enough money left to produce a few.

This was cautious spending. Still it was obvious that United Helicopters would soon need a lot of fresh money to stay in operation. Stanley borrowed a football stadium near Palo Alto and called a meeting of the stockholders. Most of them, along with some two thousand of their relatives, turned up. From a sound truck on the field, Hiller explained in detail what he had done with their money. The crowd looked interested, but it broke into roars of applause only when a test pilot took off in "The Commuter," and flew it around. While the excitement was still high, an object that looked like a decomposed dragonfly was trundled out. The applause ceased for a moment. This, Hiller announced, was the "Hiller 360," the possessor of "inherent stability," the greatest single advance in the history of rotor flight. "Look at it," he almost shouted. "This is going to be our production ship. This is where we are going to spend our money." The stockholders looked at it. Then they looked at the apparently obsolete, but infinitely more handsome "Commuter." Some preferred looks over virtue.

In test flight, the skeletal "360" hovered a few feet off the ground while the pilot let go of the controls and lit up a cigarette. Then he sat, arms folded, in the cockpit while on the ground an assistant grabbed one wheel, rocked the ship violently, and whirled it around. Each time it righted itself and resumed a steady hovering. This astonishing sight failed to fascinate some of the stockholders, but it awed aviation writers, and cleared the ground for United Helicopters' stock issue No. 2.

In mid-1947, when United Helicopters launched its second drive for funds—one and a half million this time—rumors of recession were abroad. But, with one helicopter in actual production, and another that was the talk of the industry on the way, Hiller was full of confidence. He went back to the San Francisco financiers. But a pall seemed to have fallen over them; everywhere Hiller was greeted with heavy sighs. One company, hesitating briefly between the helicopter and a ball-point pen, chose the pen (and later nearly lost its office furniture). Hiller tried Wall Street once more. There also he heard only sighs. Hiller went back to the people in Oakland. He was told that if he could raise the first four hundred thousand dollars on his own, the company might attempt the rest.

From his earlier hunts for capital, Hiller had learned that there was still plenty of risk impulse in the country—only not in the advertised places. He put the problem to a number of young engineers and department managers who had taken salary cuts to go to work for him. With their help, he found



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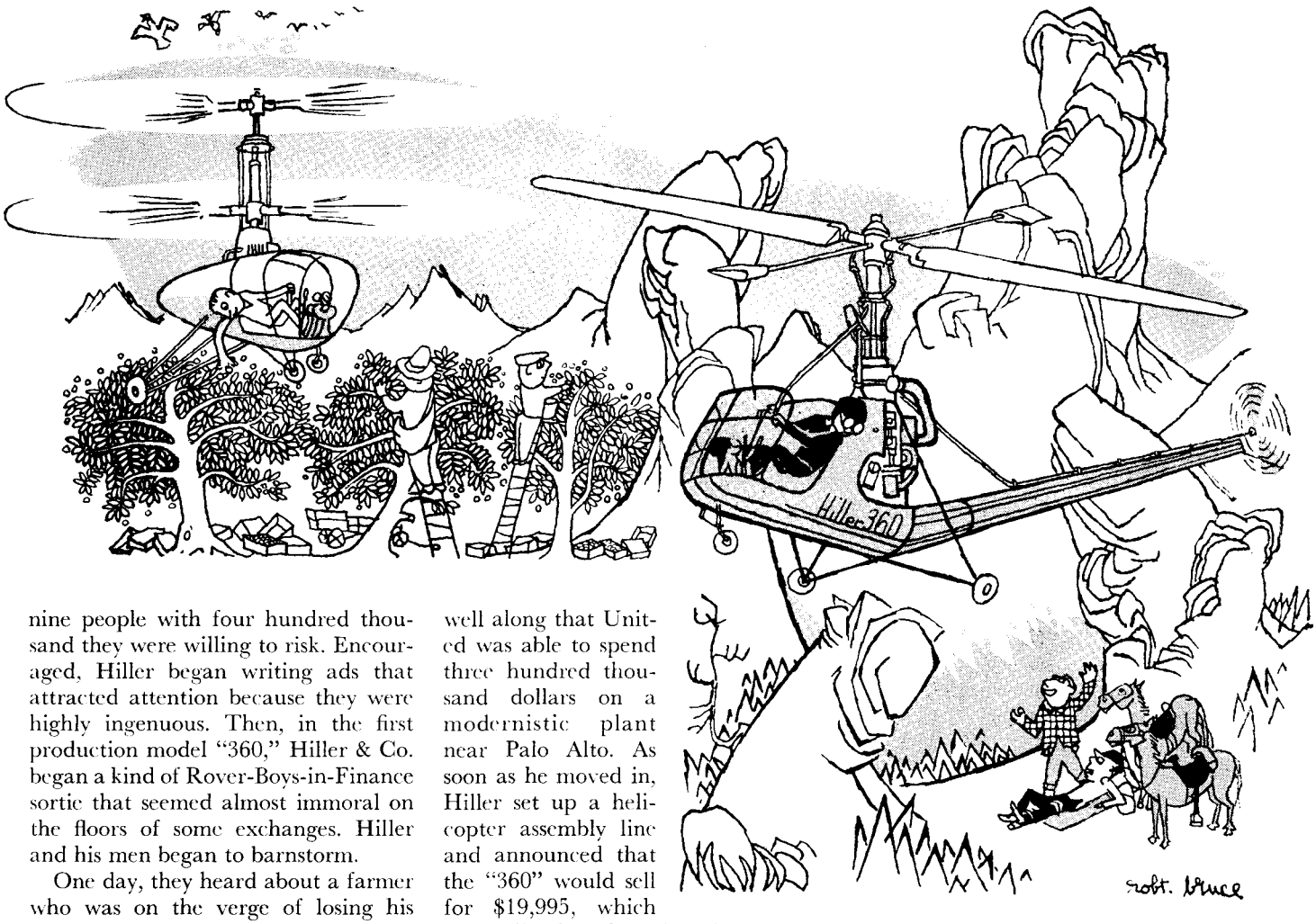

nine people with four hundred thousand they were willing to risk. Encouraged, Hiller began writing ads that attracted attention because they were highly ingenuous. Then, in the first production model "360," Hiller & Co. began a kind of Rover-Boys-in-Finance sortie that seemed almost immoral on the floors of some exchanges. Hiller and his men began to barnstorm.

One day, they heard about a farmer who was on the verge of losing his cherry crop because a recent rain had left the fruit covered with water. If the sun came out, the cherries would split open. Hiller sent a "360" to hover over the orchard, and before long it had blown every tree dry. A similar rescue mission saved a vineyard near Lodi.

Calls for help from pest-ridden farms brought the "360" to spread clouds of insecticide with the downdraft from its whirling blades. The helicopter patrolled power lines, sprayed swamps, flew in and out of city lots, and became the major attraction at the Sacramento County Fair, where hundreds of prospective investors were herded into a tent, handed pens, and exhorted to get in while they could. Every time Hiller's 'copter did a good work, the beneficiary was asked whether or not he wanted to own part of a company that produced such an eminently practical machine. Most did want to. They told their friends, the friends told their bankers, and presently Hiller was getting a few guarded inquiries from the exchanges.

In late 1947, the campaign was so well along that United was able to spend three hundred thousand dollars on a modernistic plant near Palo Alto. As soon as he moved in, Hiller set up a helicopter assembly line and announced that the "360" would sell for $19,995, which was well below the price of its nearest competitor, a Bell helicopter. Without much delay, Hiller dispatched a few employes and a shiny new "360" on the first transcontinental helicopter tour. Dignitaries in various cities turned up to be photographed clutching the controls of the grounded ship, and these photographs were published in many papers. Reporters carefully explained that the "360's" cyclic control system consisted of only seven component parts, and that its heralded "stability" was achieved by two small paddle-like devices on the rotor mechanism, which made it the world's safest helicopter.

This information must have impressed investors. In eight months, United Helicopters had its million and a half dollars, and more than four thousand stockholders. It now produces three rotor aircraft a week; its sales staff works in over twelve countries; it has a probable gross of $200,000 a month, and has sixty orders on its schedule. Its financial future is not assured, by any means. But its financial past causes wonderment in many vaulted board rooms. It has an earnings report.

The urge to try the impossible dies slowly, especially in a company with a twenty-four-year-old president and an oldest executive of thirty-seven. This August, a spectacular chance popped up again, when Hiller and the rest of the Bay Area read that a ten-year-old boy had pitched from a horse and fractured his skull in an inaccessible region of the Yosemite. It might be fatal, the story said, to pack the boy out on a horse litter. It was not necessary. In a few hours, a United test pilot named Jay Deming flew a "360" straight down between snowy peaks, into air currents no other plane could risk, and brought the boy out. It was a rousing display of nerve on Deming's part, and unanswerable evidence that the "360" was "stable," to say the least. Reading full-page accounts of the rescue, Stanley Hiller grinned broadly. It had the American touch. And it would make instructive reading on Market and Wall Streets. —RICHARD DONOVAN

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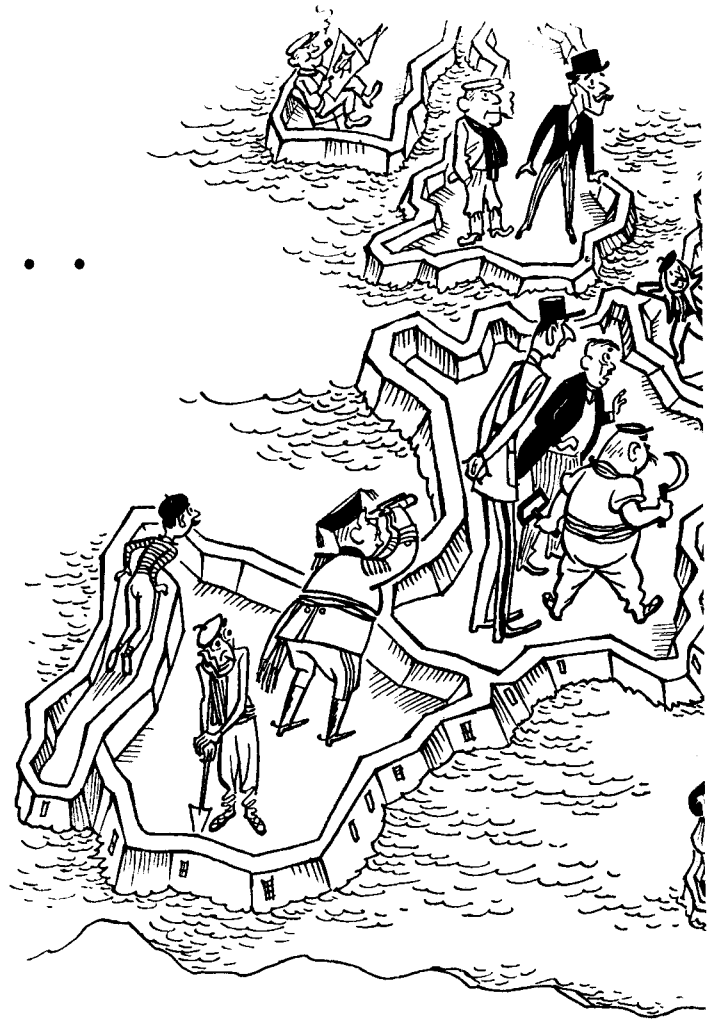
To Man's Measure . . .



Fascism, freedom, and frontiers

No sooner had the new German Parliament convened than its members started calling each other names—thus demonstrating at least a minimum of continuity in European parliamentary procedure. Contrary, however, to the late General Patton's optimistic diagnosis—they are just like Republicans and Democrats—the Germans did not shout "you dirty Republican, you filthy Democrat"; they called each other "Nazi," or "Communist," just as they used to before Hitler abolished a free parliament and put an end to their calling each other any names at all.

Outside Parliament, there is the new free press in which newspaper men who were debarred from all journalistic activities by the Allied Military Governments are now at liberty to write. In Lower Saxony, in the British Zone, for instance, a paper called the *Nordener Zeitung* has appeared. The Manchester *Guardian* plaintively notes that its editor is the same Herr Soltau who, in April, 1945, a few days before the Allies were in a position to suppress his activities, had written: "The Führer is dead—long live the Führer." There are other papers like this one. There is no reason why there should not be as many others as there are men to edit, write, and print them. The press is free. The trouble comes when men use freedom to make a mockery of freedom.

It is only in the movies that the bad men all drop dead, and you can come out into the street with the triumph of virtue still with you. They are not all dead in a country that comes out of defeat, can talk again, and is free. The war brought unselective death to good Germans and bad—we shall never know in what proportion; good and bad Germans survive and are now free to stand up and be counted. The situation will cause surprise only to those romantic minds who consider that defeat in war is the great purifier (of others) and assume that Germany, fed its fill of war and gratified, moreover, by the trials at Nürnberg and in all the de-Nazification courts, is now clean as a whistle.

Defeat in a modern war does not leave a nation clean; when you look at the countries that have been through fascism and war, it is not health that you see, or moral or physical cleanliness. That could not possibly be so. When these countries are permitted by the conquerors to take their first free steps they are like somebody who has just been let out of a mental hospital: He has shown improvement, he no longer bays very often at the moon, he cannot be kept in forever. A country that has been ravaged by the disease of fascism, like a man who has been insane, returns to health only in uncertainty and effort. For a long time the devils are still there.

In looking at Germany it might be helpful to remember that there is a precedent. Both for fascism and its aftereffects there was a pilot plant where the experiment had already been made. That experimental station was Italy. After inventing fascism—when the murder of Matteotti made it necessary for Mussolini and his adventurers to discover and formulate totalitarianism in order to save their skins—Italy was the first nation to get rid of it and surrender to the Allies.

Long before anyone could look at a defeated Germany, it was possible to look at a defeated Italy and there observe that a fascist nation's collapse leaves immense material and moral ravages. In Italy, there had been more anti-fascists, and for longer, than there ever had been anti-Nazis in Germany—but they couldn't help much.

To a certain extent these anti-fascists had contributed to Italy's liberation. After the war ended, they thought they could be of use in reviving the democratic mechanism of competing political parties. Like other Italians of good will, they were greatly disappointed. They found the Italian people morally prostrate.

Cynical survivors of fascist privilege called the Resistance people fascists. What did these people know about the business of government? asked the ex-fascists or the neo-fascists. Fascism is of course dead, they said, fascism was criminal; fascism led us to destruction. But now instead of one party there are six; there are six times as

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many possibilities for confusion and error. Fascism never had a real mandate from the people but each of these impotent fragmented parties has less than one-sixth of a mandate. These men who hated freedom used the license of freedom to destroy the political leaders who believed in it. Now in their spare time they publish, and peddle straight pornography, admixed with their pornographic politics.

The enemies of democracy are now following precisely the same process in Germany; profiting by the same freedom, they attempt to discredit freedom. Doubtless they have observed the technique employed by their Italian colleagues and have found it good.

As one candid German deputy remarked after that first session of Parliament: "It's a good thing that we still have an Occupation Statute."

We are forever complaining about Europe's lack of unity. This extreme promontory, this little cape of Asia, is just about big enough to form a decent country, but look at it—all cut up like a picture puzzle with policemen along the frontiers that ought to be no more than county lines, or boundaries for townships, or at most for states, scarcely the size of our own medium-sized states.

But if Europe is so segmented how does it happen that wars spread through it as if it were dry forest land with nothing to break the forest fire once it has started anywhere? If the policemen stand at every frontier how does it happen that they are unable to make the suitable arrests? Men pass daily with diamonds and opium; men pass daily with ideas.

We are hypnotized by the harlequinade of colors that mark each state on the map of Europe. We have experts in every country reporting to us. There is a man writing with the dateline Rome, a man with the dateline Paris, or the dateline Bonn. There is no one writing with the dateline Europe.

Our disbelief in European unity has proven costly. We looked at Mussolini, and we thought that he was no more than an Italian phenomenon. So long as he stayed in Italy whatever he did was no concern of ours. If he destroyed Italian freedom, that was something for the Italians to worry about. They did not seem to be worrying. Italy had a dictatorship, and, because Mussolini made faces when he spoke to the crowds, the dictatorship was a comic one. We did not see that Europe in the 1920's was one organism, exposed through its common arteries of culture and economy to the same virus.

Hitler appeared. And that too was the same story. The Germans are a peculiar people, we said. Now they have a dictator. And, for a while, Hitler was comic, too.

Franco appeared. And that too was the same story. Spain is so isolated, we said, that whatever happens in Spain must be spontaneous combustion. And, anyway, it is not Communism. That was the fine thing about fascism everywhere: It was not Communism.

It seems incredible, now, but we looked at the dictators and, for a long time, until we were compelled to see the truth, we thought that each of them was acting on his own, in his own country, and we thought that there were countries which are susceptible to dictators and countries which are not, and that that was all there was to it.

The French, the much abused French, eternally harping on security, tiresomely remembering the past, staring at the face of Germany as at the face of a rattlesnake, thought differently—and despaired. They lost the war that they saw approaching because they knew all Europe was ill but knew no cure for the illness.

For a long time still the frontiers between the states of Europe will continue to be a tragic obstacle to the man who wants to move from a crowded area to one in which he could find work and build a home. They will continue to hinder trade; they will be a nuisance to the American tourist. The trains will stop at night at the frontier station and people will be taken off the trains because their papers are not in order. The war for all the freedoms in the world has not succeeded in imposing the most elementary of them all: the right to move unhindered across the surface of the earth, the right of the man in the valley to wonder what new land lies behind the hills, and to find out.

But, however stubborn, the frontiers can no longer divide Europe, no longer close countries in, or fence them off. In the new German Parliament they are shouting "Nazi" at each other, and it sounds to us like a dismal quarrel between ghosts. If the frontiers really closed Germany in upon itself, that is what it would be. They do not. They cannot. If Europe is ever to achieve health, they will not.

—G. P.

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Europe

Next Door to the Soviets

Finland fought three wars between 1939 and 1945, two against Russia and one against Germany, and did badly in all of them. Seventy-nine thousand Finns were killed and fifty thousand permanently disabled—a considerable loss, to put it mildly, for a nation of four million. To the Russians, Finland had to hand over the Karelian peninsula and other areas, totalling a fifth of its farmland; three hundred million dollars in reparations; the rich nickel mines of Petsamo; the naval base at Porkkala; and quite a lot of rich timber land. A last-minute sortie by the Germans resulted in the almost total devastation of Lapland.

In spite of all this, Finland today is independent and solvent. No other ex-belligerent on Russia's western frontier, friend or enemy, can boast of as much freedom in internal affairs or as much independence in foreign relations. Diplomatically, Finland has its eye on Washington, with only occasional glances over its left shoulder at Moscow. No other nation, not even Russia, has achieved as large a measure of recovery since the war without Marshall Plan aid. Indeed, few participants in the European Recovery Program have matched Finland's progress since V-E Day.

It is a tossup which is more remarkable—Finland's recovery or its escape from the Communist trap laid for it at the end of the war. Evidences of the former hit the visitor to Helsinki first, of course. One of the most striking is Stockmann's, an eight-story department store on Mannerheim Street, with all appurtenances, from a bargain basement to fluorescent lighting.

More than thirty thousand persons shop at Stockmann's every weekday. They buy just about everything that New Yorkers can find at Gimbel's: costume jewelry, underwear, gloves, nylons, deck chairs, furniture, rugs, clothing, shoes, toiletries—and, at an up-to-the-minute soda fountain, chocolate malteds. The quality is not uniformly high, and prices are, but, as both salesladies and shoppers say: "Wages were never higher either, and we are not complaining."

In the Kaupungin Tori, the City Market that sprawls on the broad, cobbled quay of the South Harbor, the well-being of the Finns is evidenced even more vividly. Here carts are piled with vegetables, eggs, fish, and live poultry. Boatmen sell flowers, potatoes, country butter, and more fish. Only the fruit is substandard: The apples are mostly spotted, and the oranges half-rotted.

At one end of the market is a long, warehouse-roofed, brick building, divided into booths and stalls. It is fragrant with fresh bread, butter, cheese, and the pickled, smoked, spiced and sauced ingredients of Finnish smörgåsbord; sides of beef, veal, and pork, dressed turkeys, and chickens hang along its walls.

Prices, when translated into dollars, are no higher, and in most cases are lower, than in our country. A dozen and a half eggs cost a dollar; two pounds of pork chops, $1.16; beefsteak, sixty cents a pound; soup meat, thirty cents.

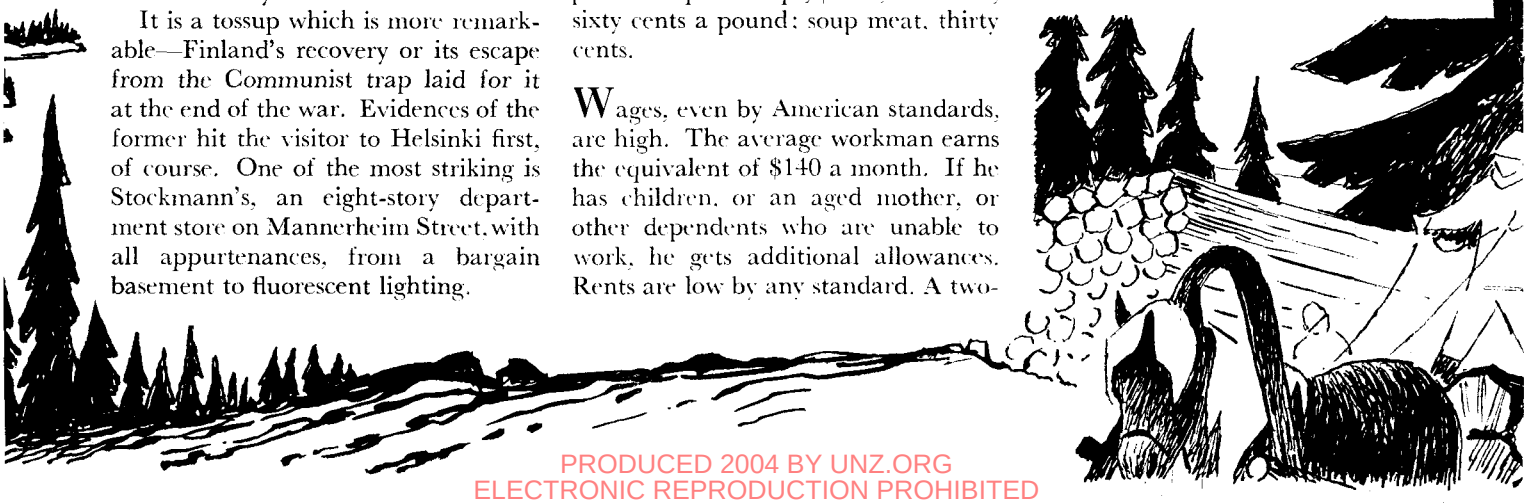
Wages, even by American standards, are high. The average workman earns the equivalent of $140 a month. If he has children, or an aged mother, or other dependents who are unable to work, he gets additional allowances. Rents are low by any standard. A two-bedroom apartment in a prewar building costs twenty dollars a month. Newer ones, which are still exceedingly scarce, bring somewhat higher rentals.

Finland did not escape inflation. After the war, prices increased about ten times over. But the Finnish government, unlike other European governments, raised wages to keep pace with prices. Last year, as production increased, and goods and food became more abundant, prices began coming down. When they have dropped five and a half per cent, wages can legally be lowered accordingly.

Throughout the inflationary spiral, which began in 1943 and continued until the beginning of 1948, Finns kept their faith in their currency. They salted it away in banks, not, as some of the French and Italians did, in cookpots and socks. Bank deposits increased from twenty billion Finnmarks in 1939 to 110 billion in 1949. Depositors had considerable encouragement from the banks, which paid—and still do—six or six and a half per cent interest on savings and two per cent on checking accounts.

The Finnish sense of economy is evident not only in the family but on a national scale. The country even managed to turn the burden of reparations into an economic asset. Here is the story:

Before the war Finland had a one-crop economy. The forests—every tree



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that is cut is replanted—provided what the Finns call the Green Gold of their foreign trade. They exported lumber, pulp, paper, and mine-timbers to the United States and the United Kingdom for dollars and sterling. Green Gold financed ninety per cent of Finland's imports of machinery, oil, and textiles, and its exportable surpluses of meat, butter, and eggs bought most of the rest. The Finnish industrial plant consisted mainly of a few textile mills.

When the reparations question came up, Finland offered timber. *"Niet,"* said the Russians. "We want trawlers, prefabricated houses, complete sawmills, packaged sulphite plants, plywood, machinery, locomotives . . ."

So the Finns expanded and retooled some old munitions factories. Their credit was good in Sweden, the United States, and Britain. They borrowed wherever they could, and bought industrial equipment so rapidly that at times, according to an official of the Bank of Finland, "we had as little as eight hundred dollars left in the till."

Now, thanks to Russia, Finland no longer has a one-crop economy. Its metals industry accounts for a quarter of its production, instead of about a twentieth, as before. If Finland manages to avoid depression, it will be due to the new diversification of its economy. This has already saved the nation from serious unemployment. There was a seller's market in wood and pulp products when the war ended, and Finland prospered almost from the moment the last shot was fired. But American and Canadian pulp and paper production have increased, and prices have come down. In the last year, Finland has had trouble competing, because of the high cost of its product. Pulp and paper manufacturing has been reduced. Fifty-one thousand men were unemployed in March, but by the end of May many of them had found jobs in the mining and metal industries, which now employ eighty-two thousand, twice as many as before the war.

By July 1 of this year Finland had paid 170 million dollars in reparations to Russia. Russia has forgiven or cancelled about seventy-five millions' worth of reparations, which leaves Finland with only fifty-five million more to pay, and until 1952 to pay it.

Then there may be economic trouble. Finland will need to find markets for the products it is now sending Russia, unless Russia buys about the same quantities it is now getting free. Finnish industrialists are fairly sanguine, for Russia has begun to order more goods outside the reparations agreement, and other countries are showing interest in Finnish goods.

But what if Russia should say, in 1952: "No, thanks—you have filled all reparations contracts and we don't need anything more from you"? The thought scares Finland. By such an action, Russia could literally export unemployment. Elections are scheduled for 1951, just about the time that Russia will be making up its mind whether to continue buying from Finland or not, and the Communists would very likely stand to gain from unemployment. Russia might then have some success in doing what it had failed to do, or refrained from doing, so far—Russifying Finland.

For various reasons, not all fathomable, the Russians have not taken on the role of conquerors and/or "liberators" in Finland, as they have, with such gusto, in Poland, Roumania, Hungary, and Bulgaria. Finland is definitely outside of Russia's satellite bloc.

The Finns very literally encounter the Iron Curtain when they travel from Helsinki to Turku and back. The railway enters the area of Russia's heavily fortified Porkkala naval base at a point that is about ten miles west of the Finnish capital. The train is stopped. Red Army guards screw iron plates over all windows and doors, and sentries hop onto the platforms. The train then proceeds the length of the Porkkala region, about eighteen miles. The plates and sentries are removed at the other side of the naval base, and the train is permitted to proceed to Turku. The Finns call this "the longest tunnel in Europe."

Aside from the train guards at Porkkala, Russians haven't been much in evidence in Finland since the fighting ended. A Russian Control Commission was quartered in the Torni Hotel

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in Helsinki, until February, 1948, but its two hundred or so members kept to themselves—and got no protests from the Finns. The commission consumed about $650,000 worth of lodging, gasoline, food, and vodka every year, and sent the bills to the Bank of Finland.

The presence of the Russians at Porkkala does not seem to disturb the Finns at all. They have freedom of worship, speech, and the press. Finnish editors refrain from attacking the Soviet Union just for the fun of it, but they do publish critical comment. When Moscow complains, as it sometimes does, that Finnish journals print too much news from the West, the editors simply reply that the Kremlin's Tass agency is neither as objective nor as extensive as the American press associations, which pipe their reports into the big Helsinki papers. One of Helsinki's leading newspapers, *Helsingin Sanomat,* recently published a full list of "inventions" claimed by the Soviets, alongside a list of the names and nationalities of the real inventors.

Back in 1905-1917, when the Red revolution was brewing, Finland, which had resented Tsarist domination since it had become a Grand Duchy of Russia in 1809, found the Bolsheviks a natural ally. It gave refuge to Red agitators and organizers, and became a headquarters for the movement which finally overthrew the last of the Romanoffs.

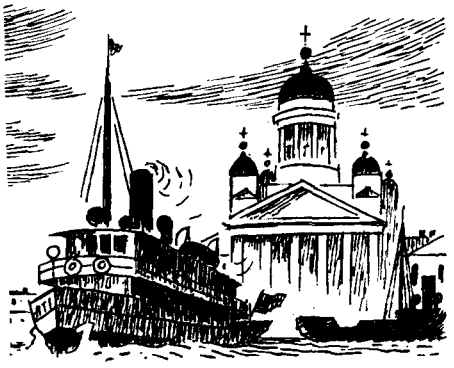
Today the situation is different. Finland has two enemies: a renascent Russian imperialism and that imperialism's new weapon of conquest, Communism. Most Finns are determined not to be conquered by either, but they know that they must proceed prudently. "A small nation," an old Socialist told me in Helsinki, "must have a large sense of proportion. Our great problem is to fight Communism within Finland and maintain good relations with the Soviet Union, Communism's central power station, at the same time."

Moscow's most recent attempt to Russify Finland was made soon after V-E Day. The Communist Party, which had been outlawed until then, emerged as the Finnish People's Democratic Union, which attracted a good complement of the more leftish socialists. It polled nearly 375,000 votes out of a total of 1,700,000, obtained fifty seats in the unicameral Diet, and formed a coalition government with the Social Democrats, who had won forty-eight seats.

The Communists got six of the eighteen cabinet posts, including the all-important Ministry of the Interior, which gave them control of the police. For the Interior post they chose youngish and dynamic Yrjo Leino, a Moscow-schooled bully-boy who is the husband of Herta Kuusinen, Finland's Ana Pauker.

Leino turned the police force into an MVD subsidiary and the Communists made some headway in the unions, gaining full control of the dockworkers' and the metalworkers' biggest locals. Communist influence, however, never extended beyond Helsinki and some of the bigger ports. In the countryside, the Socialist farmers' and consumers' cooperatives, which represent a substantial portion of Finland's internal economy, resisted all Communist infiltration.

The Communists' main difficulty was having nothing to offer the majority of Finns. The country's Social Democrats, in their thirty years of domination, had solved most of the problems for which the Communists now proposed solutions, and had done so without loss of individual liberties.



It did no good for Communists to agitate for more housing and lower rents, when most people knew that the housing shortage was largely due to two wars against the Russians, and that rents were ridiculously low already.

But the Communists suffered most from a domestic blunder. The Communists had won enough power in the longshoremen's union to maneuver an unauthorized strike in May, 1948. Finland's economic welfare depended, at the moment, on pulp and paper shipments and raw-material imports, particularly of coal. Most Finns knew this. When the strike was called, students and women marched en masse to the docks to load and unload the ships. The work-stoppage, intended to set off a general strike, failed.

Shortly thereafter, Leino was turned out of the Cabinet on a vote of nonconfidence. The Social Democrats, helped by the Farmers' Party and other conservative elements, began a systematic, nonviolent purge of Communists from government, the police, and the labor unions. In the 1948 elections the Communists lost twelve seats.

Although Finland is run by the Social Democrats, socialization for its own sake is ordinarily discouraged. The Finns, by and large, are free traders and free enterprisers, who believe in taking socialism in small doses, and only when it produces tangible economic benefits.

Finland has shown itself capable of turning an economic evil like the black market into an asset. In Finland the government runs the black market, which is known, therefore, as the white market. This is how it operates:

Cocoa, coffee, sugar, and tea are rationed. These, along with luxuries like nylons, bananas, oranges, and fancy canned goods, are imported by the government with dollars. Anyone wanting to augment his rations, or buy the luxury items, may do so through normal trade outlets at several times the prewar price. A one-pound can of coffee, for example, might be sold for the Finnish equivalent of three dollars or more. The difference between what the government pays for the coffee and what the merchant gets, less profit and overhead, must go to the government.

Finland's economic recovery has not, of course, been entirely due to its citizens' fiscal astuteness. Although Russian pressure prevented Finland from joining the Economic Recovery Program—the only time since the war that Moscow directly interfered in Finnish foreign relations—it has received considerable economic assistance from the United States. Since the war, the Export-Import Bank, the International Bank, and the Commodity Credit Corporation have loaned Finland about a hundred million dollars; and Ford, Firestone, General Motors and other concerns over seven million. Finland, needless to say, pays the interest as it falls due.

—FRANK GERVASI

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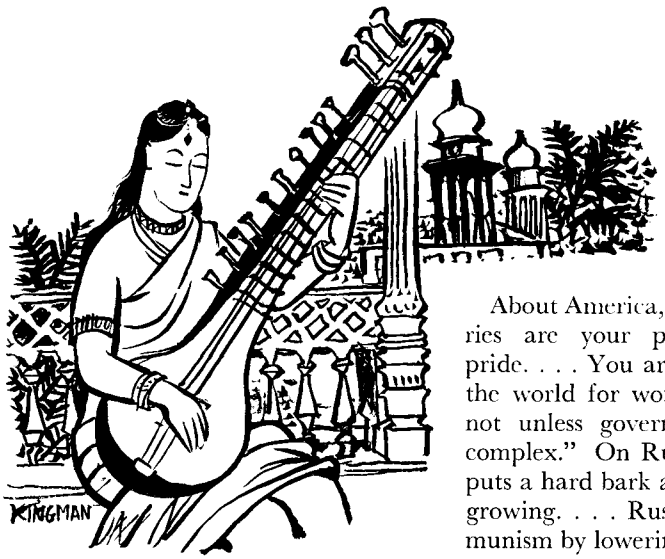
Far East

India Looks at China



Between Malaya and India, two thousand miles apart, the Chinese Communists begin to lose some of their capacity for scaring their neighbors. The attitude changes, along the way, from anxiety to simple and relatively tranquil awareness. Outside the British, French, and Dutch colonies, there is no one likely to say, as one gloomy British rubber planter did at Kuala Lumpur:

"Hongkong will be a test case—we shall see how far the Communists go there. If Hongkong falls, Singapore may become the Tobruk of the Far East."

At the gateway of India, in Bombay, the Chinese revolution, which seemed to have such dread implications in Indo-China, is largely an object of calm speculation. It is an event by no means devoid of interest, but the interest is diffused rather than categorical, challenging rather than imperious.

That feeling was expressed most clearly by India's Governor-General, Chakravarti Rajagopalachari, who received me in the spacious study from which British viceroys once ruled. At seventy, Rajaji, as he is popularly known, has the twinkling eye of youth. His manner is sprightly, and his speech epigrammatic.

About America, he said: "Your worries are your pride—philanthropic pride. . . . You are perhaps preparing the world for world government, but not unless government becomes less complex." On Russia: "When a tree puts a hard bark around itself, it stops growing. . . . Russia has killed Communism by lowering its Iron Curtain."

As for China, Rajaji appeared complacent about Mao Tse-tung and his régime. "If they succeed, then they ought to have influence—nobody can grudge them that. We can wait. We can let them burn their fingers and see what happens!"

To understand this spirit of placid forbearance, one must remember that China's is not the only upheaval in Asia —perhaps not even the biggest nor the most important. India itself is undergoing its greatest social revolution in centuries. The republic is barely two years old; the end of British rule has created a multitude of problems, cleared the way for innumerable reforms, and shaken the social structure not a fraction less profoundly than the transition from Kuomintang to Communist rule in China. Indian intellectuals follow Chinese developments with alert understanding, but they do not let the rumble of distant drums distract them from the revolution they are making with their own hands.

It would be folly to talk of Asiatic Communism without recognizing one elementary premise: This is the age of revolution in all Asia. For all anyone knows, Communism may be a transitory phenomenon: but the spirit of revolt—against domestic tradition as well as foreign imperialism—is certain to be enduring. For better or worse, the whole pattern of living is changing, and people are glad of it.

The danger is that the western world will fail to grasp the essential nature of this change. There is a tendency in the West to cry out in alarm against Communism, to focus complete attention on what may be, in reality, a side issue. There is reason to suspect that the West is guilty of self-deception, that it fears, not primarily Communism, but any revolutionary spirit, any disruption of the status quo. Among Asiatics there is no fear or distrust of revolution; there is hunger for progress, no matter what guise it wears. Communism is regarded —like any other slogan, formula, or doctrine—as a laboratory concept, to be examined, and used or discarded according to the dictates of expediency. Democracy gets precisely the same treatment.

In such an environment, mere invective against Communism is likely to be useless. The West has nothing to gain by crying wolf. Soviet propagandists can dress their promises as prettily as anyone else's; and as long as Indians have a fellow feeling for their revolutionary counterparts in other countries of Asia, the West is at a disadvantage. That disadvantage can be overcome only by acknowledging the validity of the revolutionary spirit, and by employing inducements more concrete and constructive than any that Communism has to offer.

Surprisingly enough, it is Prime Minister Pandit Nehru who seems to grasp

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most clearly the practical implications of the Communist problem. Nehru has the reputation of being something of a visionary, and is supposed to have a distaste for economic matters. That was not my impression of him. When I referred to Chinese Communism and its possible consequences, he winced, and said, almost reproachfully:

"A big question, isn't it?"

He pondered, frowned, and, after a moment, went on reflectively: "I suppose for the moment it raises the morale of the Communists in India, but the party here has no great numbers. It plays a somewhat more important part in times of economic malaise, but in elections it doesn't count for much.

"Mainly, the rise of Communism in China makes people think more in terms of economics. The revolution in China is primarily an agrarian reform movement—part of a centuries-old dissatisfaction in Asia. Land reform is the great need throughout this part of the world—and is long overdue. If we expect to cope with Communism, we must anticipate its agitation for land reforms."

He pointed out that the redistribution of farms is already under way in India. It was one of the basic planks in the Congress Party platform long before independence was achieved. "By new legislation," he said, "the big estates are being wound up, with the provincial governments paying compensation to landowners."

Some Indians think that Nehru is excessively optimistic about the progress of land reform. Critics of the Congress Party say there is a great deal of talk about improving the lot of peasants, but little accomplishment. In large part, the delay results from the fact that power to revise the land laws remains in the hands of provincial authorities, who are subject to heavy pressure from local landowners; the central government urges haste in distributing land to tenants, but the provinces are dilatory or recalcitrant.

The tendency to dally in making reforms is also explained by the fact that in most regions peasants have been comparatively well off since the end of the war. As in America, food prices were high during the war; farmers prospered, and paid off a large part of their debts. Except in the former princely states, where the feudal *jagirdari* system has not been entirely eliminated, farmers are not forced to sell as much of their crop as they used to, and may therefore eat more.

"Farmers are better off than they ever were," Nehru said, "but they are still not satisfied."

Since India is predominantly an agricultural nation, the position of the farmers is a vital political consideration. Nehru seems fully alive to the need for prompt action as a means of forestalling Communist expansion in rural areas, but it is questionable whether provincial governments will act on his recommendations.

If India is not terribly disturbed by developments in China, it is plainly not from any lack of political vitality in its own social organism. Quite the contrary. Nowhere in Southeast Asia did I observe a more virile sense of political growth than in India. The new state is fairly bursting with pride, pleasure, and excitement over its recent independence; there is an air of eagerness to be up and doing visible in every aspect of community life. India is in an expansive mood, but it has no disposition to go begging for ideas.

A philosopher-statesman like Rajagopalachari is convinced that time will bring all solutions, but his attitude is far from universal. There are others who contend that India cannot afford to drift along on a tide of fatalism. In general, Britons and Americans, as well as Indians, agree that the rise of Communism in China has had little or no immediate effect on developments in India. At the same time, many Indians are resolved not to put on blinders and await smugly whatever may befall. There is a feeling that India should "do something"—but precisely what is not clear. "The most one can say," said Frank Moraes, the young editor of *The Times of India*, "is that the rise of Communism in China has given India a sense of confused apprehension."

It is not easy to define this apprehension with certainty. Trade between China and India is inconsequential; neither country has ever owned much of a merchant marine, and the two economies are too much alike to supplement each other. India stands to lose virtually nothing by the change of régimes, except to the degree that other parts of the sterling bloc may suffer.

Strategically there has been some reorientation in thinking about India's frontiers; always in the past the northwest frontier, facing Afghanistan, has been regarded as the potential danger area. Today, as a result of wartime operations in the Burma Road area, and the state of anarchy prevailing in Burma itself, the northeast frontier, facing China, is assuming greater importance. To some, it is conceivable that the Chinese Communists might drive a wedge southward across Burma and Siam, and even into French Indo-China. However remote or academic that possibility may seem at the moment, some farsighted Indians are disposed not to ignore it. The Home Minister of Bombay Province observed: "If the worst happens, and India is surrounded by Communism on all sides, it must be prepared to protect itself. India, though weak economically like China, can defend itself with its own unique moral strength."

Indians are more certain than any other Asiatic people that Russia cannot make China a satellite. They know that Russia will seek to exert every possible influence there, and that Mao Tse-tung will be inclined to follow the main lines of Soviet policy, particularly in foreign affairs; but no one doubts that China will remain Chinese.

Many reasons are advanced for this belief. One is that China, though often invaded, has never been enslaved by a conqueror; Russia cannot be expected to succeed where others have failed. In theory, China is vulnerable economically; it is one of the most poorly organized of all the great nations. Nevertheless, it is argued, this apparent weakness can become the source of incalculable strength in future relations with Russia. Because of the very fact that China's government has been so bad, and has left the country so backward, the villagers have learned to be self-sufficient, and are not as dependent upon the central authority as, for example, the Japanese (or the Russians themselves). Being self-reliant, the Chinese are not likely to be dominated by their own government, much less by the *Politburo*.

Moreover, unlike Russia, China is

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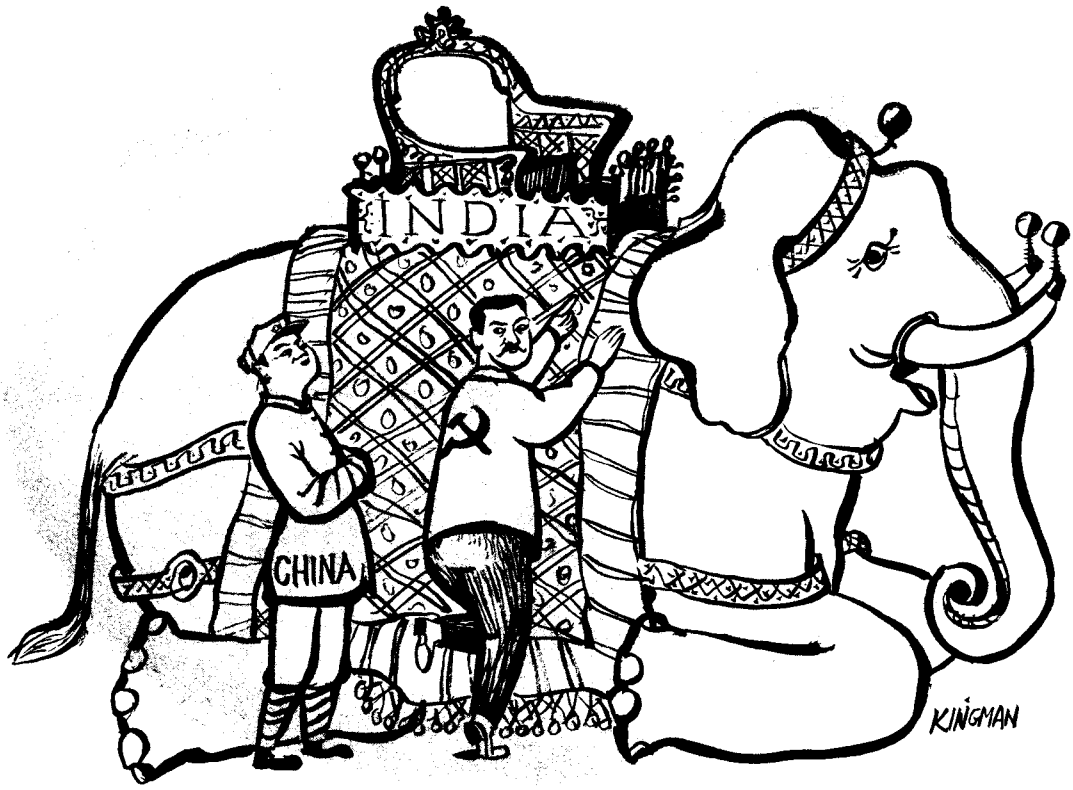

not the victim of what one distinguished Indian has called an "irreconcilable encirclement." Russia was confronted in Europe by a ring of well-organized capitalist countries with a high war potential. Justifiably or not, it feared attack, and undertook a program of military and territorial expansion. China, on the other hand, has no armed neighbors who might conceivably intervene militarily against the Communist experiment; it is therefore under no compulsion to arm itself or to count on the Soviet Union for military support. Similarly, as one Congress Party leader pointed out, "China has never had imperialist designs. Whatever fear of Communism there may be in Southeast Asia arises from a fear of Russia, not China. If there were no Russia, I am confident China would not bother to push its influence elsewhere in Asia." In any case, it appears unlikely that the Kremlin could buy China with offers of military assistance against hypothetical or nonexistent enemies. That is why Indians think China's weakness will guarantee its independence. With few arms or assets, it has nothing Russia needs; with no enemies or ambitions, it will not have to ask Russia for help.

Finally, Indians believe Chinese Communism starts off on a fundamentally different footing from the Russian variety. The Bolshevik revolutionaries, in their first radical excesses, sought to discard all "bourgeois" institutions, such as private ownership, patriotism, savings, and the family. One by one, these, and others, have been partly or wholly reinstated. Chinese Communism, however, has already conceded the necessity of private ownership of land; it accepts private trade and industry; it acknowledges without discussion the sanctity of the family system. By and large, it is more realistic, more advanced (and less Communistic) than Russian Communism even today. Ethically, China is more likely to dominate than be dominated.

In these reflections, leaders of Indian thought make no attempt at labored rationalizations. They talk with an air of intuitive knowingness—or even with the condescension of an oriental explaining something oriental to a westerner. Some outsiders find this disturbing. They feel that the Indians attach too much importance to labels like "Indian culture," "the Chinese way of doing things," and "traditional forces." They fear that India is failing to recognize the dynamic nature of the Communist crusade, that it underestimates the zealotry and fanaticism with which the Marxist dialectic is propagated. They have adopted a word—Indocentric—to describe the almost universal habits of thinking in India.

The position of the Communist Party in India is not entirely clear. Congress Party leaders insist that it has been losing ground. Other competent observers fear that in the last year it has gained strength. They base this suspicion on the theory that during the war the Reds, who chose to support Britain (and Russia), expanded and solidified their organization, under British protection. Nehru and others insist that the Communist Party lost favor with the general public by running counter to noninterventionist sentiment among the Nationalists during the war.

After hearing all the conflicting views, one gets the impression that Chinese Communism has not so far measurably influenced the growth of Communism in India.

The real question is not whether alien propagandists will foment trouble in India, but whether domestic distress may foster the growth of indigenous Communism. General economic conditions in India have deteriorated alarmingly in the last two years; the sterling credits that had been accumulated during the war are being exhausted to pay for food imports; the ruling Congress Party often fumbles with the new machinery of government. There is an insistent demand for industrial expansion, but a lack of confidence has dried up the market for capital funds. Potential investors are hoarding gold, jewels, and cash instead of buying stocks and bonds.

Out in the villages, where the white caps that are the badge of Congress Party members were once hailed in a spirit of nationalistic hero worship, there is again grumbling. The villagers are saying: "The White Skins have been replaced by the White Caps—with no difference!"

India's leaders, to win the struggle against Communism, must fight not so much against Chinese Communist propaganda as against disillusionment at home. —William Costello

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Inside America

The Small Men of Business

The census taker entered the third tailor shop on the block, heaved his bulging briefcase onto the counter, and prepared to fill out Form BC40.

"Gross receipts?"

The figure was an extremely modest one.

"Number of employees?"

The reply was in the singular.

"Payroll?"

No arithmetic necessary. The census taker put the figure over the proper line. He was, for all United States government purposes, finished. But the tailor wasn't.

"Young man, by the time I pay my expenses, and my taxes and helper on top, I don't have a thing left. *No,* sir, and when I figure what I could be making for somebody else, I'm losing money!"

"Well," said the census taker, very unofficially, "why *don't* you go to work for somebody else?"

"Ah, I wouldn't have it. This way I'm my own boss. Besides, don't know that anyone would have me. I'm gettin' up there . . ."

The tailor was one of three million businessmen interviewed this summer in a census of wholesale, retail, and service trades. The project cost thirteen million dollars, employed forty-five hundred men, thousands of maps, millions of I. B. M. punch cards. Its end product will be a statistical picture of how the American businessman fared in 1948. This was the first Census of Business since 1939—an altogether different sort of economic year—and its purpose was to survey wartime growth and changes. Full reports will not be ready until 1951, but the "enumerator"—often a student out to pick up a little extra money—was able to begin putting information together and drawing conclusions. One of the things he learned is that profits are not the only reason people enter, or remain in, small business. Many prefer it as a way of life, or regard it as something to do in one's old age, or both.

The enumerator also got a new slant on the physical aspects of the American business world. Instead of great, gleaming towers and factories, and smooth, silent elevators, he had to penetrate second-story offices and ramshackle sheds, climb back stairways, and at their end, interview little men in shirtsleeves and aprons. Over ninety per cent of all kinds of business units are small, and these small businesses account for over a third of the country's total sales volume. But the census taker was concerned specifically with distribution and services—with the small proprietors whose assets are mostly in their heads and their hands, who run repair shops, pet stores, groceries, pharmacies, hotels, and innumerable other enterprises.

Not all of these shopkeepers were as voluble as the tailor. The census taker, a representative of government, often encountered a sturdy suspicion of Federal curiosity. Many businessmen said, "The government has no right to make us give you this stuff," before they went on to give it. Others were even more truculent; "I mind my business and you mind yours—get out!", or, "I keep a clean shop and pay my taxes. That's all you need to know, Mister." Even after assurances that the required information was to be held in closest confidence, inaccessible to other branches of government, including the Bureau of Internal Revenue, they were still recalcitrant. Some were frightened. A government man meant trouble, and, probably, to tell him things would mean more trouble. They would repeat over and over; "Now if it's going to make any *trouble,* I'd rather not tell you." Others succeeded in turning the tables on the interrogator. They wanted to know where jobs could be gotten, how checks could be validated, where apartments were to be had, how to deal with municipal, state, and/or Federal Administrations on business problems. A tolerant minority believed the census a good thing.

One thing the census taker learned was that small business was a collective noun only on paper. Small businessmen lack the solidarity and the organization to shoulder their way into the national scene as aggressively as labor or bigger business. Most of them are in small business because they don't *like* organization in the first place. In general, they were bitter about bigness, whether in business, labor, or government. They complained that recent Administrations have been favoring labor for some time, and that, indirectly, small business pays for part of it. Many grew overheated at unemployment compensation. "The government is wrecking the country with it" they argued, "People should be made to work for a living." With his carrot-and-stick philosophy, and his sidewalk-level experience, the small businessman was outraged at a system that sometimes made it hard to get people to work because they could subsist for periods without working. As for his personal labor problems, he maintained his employees sometimes put in fewer hours and take home more money than he does. He explained that whether he is big enough to have a union in his shop or not, the big unions set wage standards for the whole country, and, regardless of his capabilities, he has to meet them.

In addition to bigness of government and labor, which brings him tax burdens and labor problems, the small businessman was vituperative about bigness in business—"the chains," the dreaded Atlantic & Pacific, J. C. Penney, and the like, which harry him with low prices. Because they cause some of

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his woes, the small businessman often feels them to be the source of all of everybody's woes. "I tell you," one shopkeeper thundered to the census taker, "the trouble with the country today is the chain stores! Get rid of them and you'll get rid of depressions." He based this theory on the somewhat antiquated assumption that communities are self-contained economic units. "Chains are bad," he concluded triumphantly, "because they take the money out of the community!"

But even the degree of resentment against the chains varied. The census taker noted that it diminished in small shops as cleanliness, light, and courtesy (the chain virtues) increased—and gross receipts went up.

The printed pep-talks for small business are fond of insisting that the local independent can successfully hold his own against the chain store if he cultivates such garden-variety virtues. Curiously enough, the pep-talks seem to be right. The census taker found that politeness and tidiness could make a difference of as much as two thousand per cent in the annual sales of two small stores in the same block. Sometimes, in the most unexpected, out-of-the-way shops, he had to put away the "small" form and begin again with the form for "Over $100,000 Gross." Not all local trade is as small, or as struggling as its quarters would indicate.

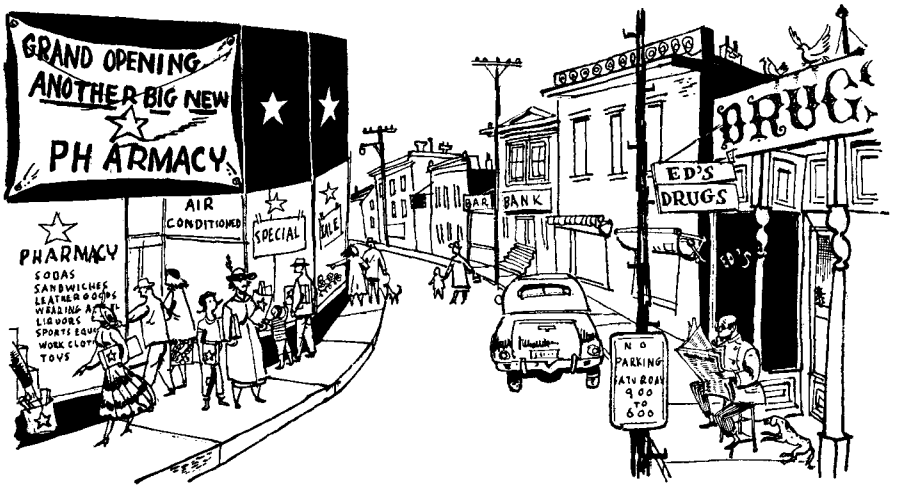
Though they haven't been dominant since the Middle Ages, the petty capitalists (as the business writers call them) have remained with us, performing much the same services as ever. Even in an age of bigness, they can offer many things that their gargantuan competitors cannot. To the neighborhood, the small businessman offers individualized merchandise and services, which often cannot be had in the great department stores. To the nation, he has value as a watchdog; with the petty capitalist watching, and kicking when he has a mind to, the chairman of the board has less chance of getting away with a public-be-damned policy. To the shopkeeper himself, small business offers a variety of tasks and the freedom to perform them in his own way—something desirable in itself. Finally, there is a long-term role for the small businessman. The economist says that his historic function has been to cushion change.

Today, some small businessmen are cushioning change in the hardest way of all—by going out of business. Most of such disasters, however, were reported by businessmen who started since the war, and are folding as a result of the slump that began in the middle of 1948. The census found stabilization setting in, and dragging with it a multitude of economic and psychological problems, especially for newcomers.

The small businessman who is about to fail is prone to think that the world has been against him, that his fate has been completely beyond his control. Business writers describe his troubles as a failure of education. Many experts would be delighted to provide schooling in the general business environment and in the usefulness of a businessman's own qualifications. But the experts are too expensive, and often too abstruse. More personal counseling in banks may be the answer in the future, and, certainly, the educational possibilities of the trade association have not been fully exploited.

There is evidently a considerable gap between the associations and their members. This very census is designed to provide figures on the major branches of trade for each county and city, which the small proprietor theoretically has been waiting to consult. Actually, some businessmen, and most of their trade associations, have been very enthusiastic. The Soda Fountain Council expressed its appreciation, and the *Florist's Review* did, too; the Tulsa Chamber of Commerce said the census would be "of great value to individual firms," and the American Steel Warehouse Association expected "a more complete and accurate insight" than it had ever had before. But most of the small proprietors had never heard of the census, and so far as the census taker could see, very few were convinced that it could help them in any practical, dollars-and-cents way. Many of the men in shirtsleeves had a stock gag: "What's the matter? Government have to find a job for you guys?" Independent and self-reliant by nature as well as by necessity, the small businessman is suspicious of all efforts except his own toward bettering his business conditions.

The only measure sure to receive a unanimous welcome from small businessmen is lower taxes—for their capital must almost always come out of savings. But whether small business gets the financial encouragement it needs, or accepts the advice it equally needs, there will probably be small businesses as long as there are government censuses. The small man has always been pressed hard; he has had to shift and yield, but he has always survived. In the big cities, the very habitat of economic and administrative bigness, he has increased beyond all past record. The business historian, N.S.B. Gras, put it neatly: "I am not impressed with his defeats . . . but with his victories."



As the census taker, too, pondered this mysterious resiliency, he found himself thinking of his great-uncle, an Arizona blacksmith. What was it the old man had been so fond of saying to him? Oh, yes: "He who chops his own wood gets warmed twice." That's it, he thought. That's it, of course.

—Jane R. Scheck

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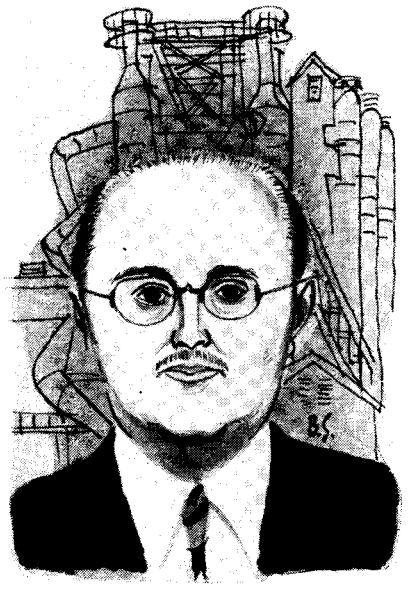
Washington

The Senate and Mr. Ilgenfritz



Hard cases, the jurists say, make bad law. It was a hard case that Mr. Truman sent to the Senate when he nominated Carl A. Ilgenfritz to be chairman of the Munitions Board in the Department of Defense. The policy the Senate expressed in its discussion and rejection of the nomination sets a dubious precedent: Taken with other evidence, it seems to mean that, in the Senate's view, the American government, undertaking tasks unparalleled in the peacetime history of any nation, must bid for the services of the first-rate men it needs with third-rate salaries.

The troublesome fact about Mr. Ilgenfritz was that he wanted to go on drawing his salary of seventy thousand dollars a year from U. S. Steel, of which he is a vice-president. He felt that such a course was necessary to protect his private pension rights—a matter of some concern to a man in his late fifties—and to discharge the personal obligations he had accumulated in the expectation of a high income.

The steel executive was, in fact, a second choice for the Munitions job; the post already had been offered to, and declined by, Mr. Ward Canaday, chairman of the board of directors of Willys-Overland.

The Senate, however, had to take or leave what the President and the Secretary of Defense offered: A man of badly-needed talents, who could not live on his Federal pay alone. Nearly every Senator who participated in the debate echoed the sentiments of Edwin C. Johnson, Colorado Democrat, who remarked, with obvious discomfort, "I am having a great deal of trouble with this matter." The final vote against the nomination was 40 to 28.

Advocates of the appointment urged the pragmatic necessity of getting a qualified man. If Mr. Ilgenfritz was not as indispensable as his backers represented him to be, neither was the question of his nomination precisely the matter of principle which his most determined opponents claimed.

The principle, as quoted from the New Testament by Senator Virgil M. Chapman, a no-more-than-normally-devout Kentucky Democrat, was that "no servant can serve two masters." There was, however, little possibility that Mr. Ilgenfritz would continue serving the interests of U. S. Steel during the one year that he would have been chairman of the Munitions Board. Ilgenfritz's own integrity, many Senators asserted, was insurance against that. Anyway, the board formulates broad policy for purchases made by the Department of Defense; the actual procurement is executed outside the board and, to a large extent, outside the department itself. Insofar as Mr. Ilgenfritz's general philosophy was concerned, there was the fact—although none of his advocates discovered it—that he had been a consultant for a task force of the Hoover Commission that had favored awarding small business a larger share of government contracts. One other fact was overlooked: Thomas J. Hargrave, chairman of the Munitions Board in 1948, had served in that position part time while he continued to act as President of the Eastman Kodak Company.

Delicately, the Senate debate avoided the many minor parallels to the Ilgenfritz case that already exist. As the Washington press observed and the Senate did not, it is a widespread practice throughout the Federal bureaucracy to hire men as consultants, and even as staff members, who continue to draw compensation from such diverse private sources as Harvard University and the B. & O. Railroad.

The Senate debate did not mention, either, the thirty-five-thousand-dollar salary that Senator Bridges, New Hampshire Republican, for a time drew from the United Mine Workers Welfare Fund; nor did it touch on the fifteen thousand dollars a year that former Senator J. Howard McGrath, Rhode Island Democrat, used to receive as trustee of a nominally charitable foundation that actually functioned as part of the capital structure of a New England textile firm. The Senate likewise avoided the case of legislators who, while they make laws in Washington, are partners of firms that argue laws in the courts.

In the end, however, the Senate clung to the rather fragile assumption that it was voting against permitting a Federal employee to receive dual pay. Mr. Ilgenfritz declared that he was just as happy to stay where he was.

Soon after it rejected the steel official's nomination, the Senate took up an executive pay bill. This was a measure to raise salaries for 239 key positions in the government, the compensation for which, in some cases, was set by statute as long ago as 1912. The measure corresponded closely to the recommendations of the Hoover Commis-

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sion, and to the pay levels proposed in a bill introduced by Senator Taft in the Eightieth Congress. It would have raised Cabinet salaries from fifteen thousand to twenty-five thousand dollars a year; it would have up-graded sub-Cabinet positions, commissionerships, important bureau chieftaincies, and comparable offices by an average of around five thousand dollars a year —moving these positions into the fifteen- to twenty-thousand-a-year class.

In its vote on the bill, however, the Senate succumbed to another principle: that no bureaucrat, whether or not he has been recruited from private industry, could be worth more than a member of Congress. In place of the bill that had been reported to it, the Senate adopted a substitute generally limiting offices of less than Cabinet rank to fifteen thousand dollars a year —the annual salary of Congressmen.

The sponsor of the successful substitute was that same Senator Johnson who had been so deeply troubled by the Ilgenfritz dilemma, and who had gone so far as to propose that Congress accommodate the steel executive by providing special legislation to cover his individual case. Oddly enough, one of the pay levels at issue was that of the chairman of the Munitions Board, now set at fourteen thousand dollars. Under the Johnson proposals, the extra sum that the Administration could dangle before the eyes of any industrialist being asked to substitute for Mr. Ilgenfritz would amount to a thousand dollars a year.

The Hoover Commission has estimated that the government has over three thousand positions in its executive branch with annual salaries of ten thousand dollars and above. *L'affaire Ilgenfritz* leaves some troublesome questions: Is a business executive on leave a less dependable public servant than, say, a labor official lending his skills to the government? Do skills learned in private business effectively transfer to public business?

The most troublesome single problem, as David Lilienthal, and many other Federal officials have testified, is how to bring skilled administrators and managers into the government at all. This was the real question raised by the Ilgenfritz case, and it was one the Senate failed to answer.

—Harold N. Graves, Jr.

Two G.O.P. Senators— Capehart and Flanders

Hoosier Salesman

Harris & Ewing

Like the phonograph that bears his name, Senator Homer E. Capehart, Republican, of Indiana, is large, shiny, and full-toned. His appearance lends itself to a caricature of either the carefree fat man or the bloated capitalist; he has a double chin, he usually wears a dark, conservative double-breasted suit, and a big ring sparkles from one of his fingers.

Actually, Capehart is not quite a jolly fat man or a bloated capitalist. He is a salesman, and a good one. He has sold enough baking powder, farm machinery, gadgets, juke boxes, phonographs, and radio sets to acquire a million dollars or so. He has sold free-enterprise Republicanism well enough to win a seat in the Senate.

Capehart is so much the traditional American businessman that to characterize him is to commit a prolonged cliché. He is likable, kind-hearted, and generous—a self-made millionaire who was once a penniless farm boy. Like the copybook maxims he tends to think in, he is profoundly provincial. Sometimes he is definitely proud of this narrowness and sometimes he seems to be painfully, almost pathetically, groping for a wider perspective.

His million dollars (a minimum estimate) qualify Capehart as one of the richest men in the Senate, but in his business enterprises he never really got out of the minor leagues. Held up beside those of Fairless or Ford, Capehart's career dwindles to proper focus: He is a prototype of the successful medium-sized businessman, and his ideas are those of small businessmen, not of big corporation chiefs. Capehart made his first, and so far only, political campaign on a platform favoring private enterprise, especially small business. Hence, he sees most political problems in simple terms of the individual entrepreneur against the government.

This formula brought him into politics in 1938. His opposition to the "socialistic way the country is going" led him to stage a "cornfield conference" on his eighteen-hundred-acre farm in southern Indiana, with the avowed purpose of "showing the Republicans how to block the New Deal." This political scrimmage, attended by twenty thousand fellow Hoosiers, cost the host thirty thousand dollars. Indiana Republicans realized pleasurably that they had found another soft touch.

The trouble with the Republican Party, Capehart thinks, is not that its product is unsound but that its salesmanship is terrible. "I wouldn't hire one of 'em," he said scornfully of the G.O.P.'s managers after the 1948 debacle. "If I wanted a salesman, I'd hire Harry Truman.

"We me-tooed 'em. We not only failed to sell our product—the fine record of the Eightieth Congress. We got sucked in on this bipartisan foreign policy and a lot of other things besides."

The Senator's opposition to New Deal measures and the bipartisan foreign policy, as reflected by his votes, has not been quite one hundred per cent. He voted for American participation in the International Bank, for the 1945 full-employment bill, for the Greek-Turkish aid program, for a National Science Foundation, for a seventy-five-cent minimum wage, and for the Atlantic Pact. In very few other cases, however, has his record been sullied by me-tooism.

Capehart attributes his success in the 1944 race for the Senate to the fact that he shook a hundred thousand hands and made more than three hundred

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speeches in a ten-month campaign. In preparation for the 1950 election he is already spending as much time as possible in Indiana. Dewey carried Indiana in 1948, but the Democrats elected a governor and seven out of eleven Congressmen. Capehart won in 1944 by only twenty-two thousand votes out of 1,630,000 cast, and at best he will have a close squeeze in 1950. At worst his prospects look bad. It all depends on whether Hoosier farmers and small-town businessmen in 1950 are in the mood of 1946 or that of 1948.

Even though Capehart voted for the Taft-Hartley Act, he does not understand why labor treats him as acrimoniously as it does. He has never had a strike in any of his companies, and he says he gets along fine with the United Steelworkers Union, which has a closed shop in his Indianapolis factory.

The Senator's distaste for the New Deal and his contempt for Republican strategy have not soured his disposition. At fifty-two, his black hair is pretty thin and he wears glasses, but his pudgy face is almost cherubic and his optimism downright Pollyanna-ish. "When anybody hands me a lemon," he says, "I always make lemonade." Highly gregarious, he belongs to a host of organizations ranging from the Moose to the Union League.

Capehart is a Lincoln fan. On the wall of his office reception room hang thirty-six pictures of Lincoln, which he describes as one of the best collections in the country. Imbedded among the pictures is a carefully culled, carefully framed quotation from his hero: " . . . If the end brings me out all right, what is said against me won't amount to anything. If the end brings me out wrong, ten angels swearing I was right would make no difference."

Impeccable party loyalty is reflected by Capehart's office trappings. They do not include an equally well-known quip by one of the Senator's former colleagues—Alben Barkley—who once observed that "the nearest the Republican Party has been to Lincoln in two generations is to quote him."

After high school and a term in the Army during the First World War, Capehart began to make his way in the world as a baking-powder salesman. During the next eight years, he sold for four different companies, taking time out to set up, with a partner, his own advertising agency in Green Bay, Wisconsin.

In 1927, Capehart met an inventor who had been issued a patent on a device for changing and turning over phonograph records. Soon afterward the Capehart Automatic Phonograph Company was founded to make the "orchestrope," a kind of prehistoric jukebox, which until 1930 was quite literally a howling success. But the company lost money during the depression, and Capehart left to become vice-president of the Rudolph Wurlitzer Corporation, which makes jukeboxes. The Capehart company, minus Capehart, eventually merged with the Farnsworth Corporation, to turn out super-de luxe radio-phonographs. In 1940, Capehart left Wurlitzer to devote his full time to the Packard Manufacturing Corporation, which he had organized in 1932, and which makes radio and phonograph parts, and a variety of other electrical gadgets.

He has been liquidating his business enterprises since he went to the Senate in 1945. Only a small part of the Packard company remains, and that has been turned over to his twenty-six-year-old son Tom.

One of Capehart's favorite political techniques is the use of deceptively simple prima-facie logic. A typical Capehart syllogism might run something like this:

The Marshall Plan is a program to stop Communism in western Europe.

Of all western European countries, Spain has had the most experience in fighting Communism.

Therefore, Spain should be included in the Marshall Plan.

When the veterans' housing shortage was most acute in 1946, the Administration proposed a program including guaranteed markets for certain types of houses. Said Capehart: "There is or there is not a shortage of houses in America. If there is a shortage, and if there is a tremendous market . . . there is absolutely no sense in the government's guaranteeing to any manufacturer that he will be able to sell his houses. . . . Instead of trying to solve the problem in the American way, through private enterprise, the Administration rushes to the Congress of the United States and asks it to vote them a few extra hundred million dollars and . . . unlimited power."

"If a tariff bill were before the Senate for the protection of industries such as big billion-dollar corporations," replied Senator Claude Pepper, "we would not hear the able Senator from Indiana. . . saying that we should dispose of the matter in the American way and allow the American consumer to buy commodities for whatever he could get them in a free American market."

If Pepper had a legitimate point here, Capehart has not yet been able to find it, nor does he evince any interest in doing so. He has a simple

Harris & Ewing

Capehart of Indiana

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way of disposing of New Dealers. They keep on throwing lemons at him. He goes on making lemonade.

Mechanical Yankee

When Ralph Flanders was fifteen, he became the chief support of his parents and eight brothers and sisters. As an apprentice machinist at the Brown and Sharpe Manufacturing Company, in Providence, he earned four cents an hour and worked a sixty-four-hour week. When he was thirty-two, in 1912, he was director and manager of the Jones and Lamson Machine Tool Company, in Springfield, Vermont.

In 1930, when Flanders was fifty, nobody wanted—or could afford—to buy the machines that he had been designing and making. He knew that these machines, and others like them, were capable of producing more goods than had ever been dreamed of. Why weren't they busy producing? The question was not original, of course, but Flanders's reaction to it was highly so. He began making a systematic study of economics for himself.

Today Flanders is a Republican Senator from Vermont, with two basic objectives: to create, as nearly as possible, the equality of opportunity which he himself did not start with, and to see to it that businessmen will never again have to lay off workers the way he had to in Springfield during the early years of the 1930's.

Though these ideals appear not only high-minded but naïve to many of Flanders's Republican colleagues, Flanders is an extremely hard-headed man. At a recent meeting of the Joint Committee on the Economic Report, Flanders listened silently while witnesses (whom he later described as "some of the top-brass economists") unfolded a beautiful fiscal policy in the usual ten-syllable words. When they had finished, he observed that their suggestions were excellent, then quietly punctured the whole structure by asking: "How do you propose to put this into effect in a politically-minded Congress?"

Flanders is pretty much a "top-brass economist" himself, though he has no college education. His home study of economics taught him enough about the highly technical field of banking so that he was able, in 1944-1946, to do a creditable job as president of the Boston Federal Reserve Bank. As a mechanical engineer, Flanders is also self-taught. He is a past president of the American Society of Mechanical Engineers and the National Machine Tool Builders, and has been awarded an impressive list of engineering medals. A Flanders-designed machine is generally credited with helping to make mass production of airplanes possible during the war.

Now, at sixty-nine, Flanders is bespectacled, nearly bald, and slightly stooped. During the war, he said that his draft classification was 5-B—for baldness, bifocals, bridgework, belly, and bunions. He is a hard worker, even by Senatorial standards, which are pretty high. Not a particularly impressive public speaker, he talks well in small groups, and occasionally breaks through with a flash of dry Vermont wit. Before expressing an opinion, he is apt to pause to rebuild the fire in an ancient pipe and to stare at the floor, or out the window.

Harris & Ewing

Flanders of Vermont

Flanders is an omnivorous but purposeful reader. He makes highly efficient use of his time and his staff, and doesn't quibble over petty details. Some of the Senate's more meticulous lawyers complain that this occasionally leads him into sloppy, ambiguous use of language. But to most laymen, his language seems plain and forthright enough. Like most of his constituents, Flanders is apt to be impatient with lawyers.

The main trouble with Flanders, says a colleague, is that he spreads his energies and talents too thin. "Flanders can talk—and talk intelligently—on almost any subject under the sun," this friend said recently. "But he would be more effective if he limited himself to concentrating on those subjects on which he is an authority."

Like Homer Capehart, Flanders has had a Horatio Alger career. He even went his Hoosier colleague one better by marrying his boss's daughter. But Capehart has made a great deal more money. Even in Flanders's best years, his income was no more than a third of Capehart's. Also like Capehart, Flanders is passionately devoted to free enterprise. But to Capehart, the salesman, free enterprise is a slogan to be peddled for all it's worth. To Flanders, the engineer, it is a machine that has broken down too often in the past, and needs perhaps a couple of extra attachments. Private industry, Flanders once said, "had better be careful about promising too much. We had it all our own way from 1921 to 1932. We did not deliver—we are discredited on our record."

Capehart got into politics to stop "socialism." Flanders became a politician because he felt that if the free-enterprise system wasn't made to work, some form of socialism was probably inevitable. When Flanders was elected to the Senate in 1946, he was generally regarded as a liberal Republican who would be a Democrat in any state but Vermont. Then he voted for the Taft-Hartley Act, and went along with Republican policy on most other issues. The phrasemakers had no sooner put him down as "just another businessman" when he read the riot act to big business

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for contributing to 1947's inflation by irresponsible pricing policies.

Flanders himself refers interviewers who ask for a statement of his political philosophy to a marked passage (he even remembers that it is on Page 1000) in the *Encyclopedia Britannica* that he keeps in his office. The passage, under the heading "Liberal Party," is as follows:

"Liberalism . . . involves a readiness to use the power of the state for the purpose of creating the conditions within which individual energy can thrive, of preventing all abuses of power, of affording to every citizen the means of acquiring mastery of his own capacities, and of establishing a real equality of opportunity for all. These aims are compatible with a very active policy of social reorganization, involving a great enlargement of the functions of the state. They are not compatible with Socialism, which, strictly interpreted, would banish free individual initiative. . . ."

Flanders has supported Federal aid for housing, education, and medical care (although he opposes compulsory health insurance).

But in other respects, his record in the Senate, especially his vote for the Taft-Hartley Act, has caused labor and other liberal elements to reconsider their original opinion of him as the G.O.P.'s White Knight from New England. At the moment, they are up in the air about him.

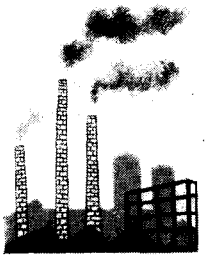
Flanders's personal experience with organized labor has been brief but placid. Jones and Lamson is a paternalistic employer in the best New England tradition, and unions never made any headway until wartime expansion brought in many new workers. The left-wing United Electrical Workers finally organized the plant in 1944. The union has since pronounced Flanders "a man of real stature" who has given it "absolutely fair treatment."

Flanders describes himself as strictly an amateur politician, and he has an infinite capacity for shocking his more orthodox colleagues. When the President, in his last economic message to Congress, renewed his denunciation of the Eightieth Congress's tax-reduction bill, Flanders commented simply: "He's got us there. I voted for that bill, but I've regretted it ever since."

—Pat Holt

Prices

The Cost of Living



Sewell Avery, the stormy chieftain of Montgomery Ward, has based his postwar policies on the notion that prices in the United States are bound to collapse. Such being his idea, he has hoarded his cash, refused to build new stores, and held his inventories as low as possible. Mr. Avery's idea is to play safe now, and expand later. Meanwhile his competitors are running away from him.

The evidence of history is all on the side of Mr. Avery. The Napoleonic Wars were accompanied by wide inflation ending in collapse. So were the Civil War and the First World War. Since the Second World War the United States has had its share of inflation, as any businessman who wrestled with rising costs and prices through 1947 and 1948 can testify.

After the death of OPA, in June, 1947, wholesale prices rose some ninety per cent above prewar; the cost of living went up two-thirds. These increases represented a very substantial change, and the relations between businesses and between men were widely altered in the process. Moreover, this inflation, like all others, carried certain seeds that could destroy it. These seeds are now sprouting. Prices have begun to fall, and a new and more stable complex of relationships is in the making.

What is this new postwar norm likely to be? Enough evidence is at hand to form some reasonable judgments about it—and to suggest that, after all, Mr. Avery is a poor prophet. One thing is certain. The average level of prices has been irretrievably raised. Buyers cannot expect to enjoy the good old price ways of 1941. A car that cost eight hundred dollars then is bound to cost thirteen hundred now, at a minimum. Men's suits once priced at thirty dollars are hardly likely to fall below forty. Butter will continue to be priced at about seventy-five cents a pound, around twenty cents over the OPA price.

Most economists believe prices as a whole will settle down at a level fifty-five per cent or more above 1941. For consumers, this is not particularly good news. It means a reduction in the cost of living of only ten per cent from the peak last autumn. In terms of wholesale prices, the decline would average out to sixteen or eighteen per cent. Of course, these forecasts are for the longer run. The actual drop in prices might be somewhat greater for a while. Recovery to these longer-run levels should occur as business is strengthened again.

Actually, the economy has already moved part of the way toward this price adjustment. Wholesale prices now stand ten per cent below their peak of late 1948. But much of this drop has yet to be reflected in the cost of living.

There is a brighter side in this picture of very modest price declines. It has to do with people's incomes. If the price of wheat doesn't collapse, the income of the wheat farmer won't collapse either. If auto and refrigerator prices remain high, wages of workers in those industries will stay up.

Indeed, it is because farm incomes and wage rates are well-bolstered that the United States is not likely to experience the type of price collapse it has had in the past. In the slump of 1920-1921, both farm and industrial prices fell by more than forty per cent. But farm incomes were cut a third, and wages a fifth. Now the government has placed a high floor under farm prices, and unions appear strong enough to maintain wage rates, even in the face of weakening employment.

Granted these limits on farm prices

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and wage rates, two factors are expected to produce most of the drop in living costs. First, profit margins had become excessively inflated in a number of lines. The return to competition has already begun to narrow these margins, and will squeeze them further in coming months. Second, inflation raised the prices of farm products a good deal higher than the levels the government has set. Some decline already has occurred here; more is in the offing.

Early in 1948, grain prices were three times as high as they had been before the war; livestock and cotton prices, two and a half times; and the prices of dairy products slightly less inflated. Over the same period, wages had increased only four-fifths and industrial prices only three-quarters. This represented a distortion that could not endure for long. In effect, it meant a huge shift in income from wage earner to farmer. For the past eighteen months, economic forces have been redressing this imbalance to some extent.

Today farm prices have retreated about sixteen per cent from 1948. They have more ground to lose, but the average will remain a good eighty-five per cent above prewar. Wheat, which brought three dollars a bushel in early 1948, will run about $1.80 in 1950. (Before the war, a dollar a bushel was considered highly satisfactory.) Cotton will be about twenty-nine cents a pound next year—a fact that disturbs textile producers. In 1941 it was 13.9 cents. As for the price drop that is yet to come, most of it will be in meats. But even here, housewives can look forward to little more than a decline of twenty per cent in the near future.

The farmer will certainly emerge as one of the principal gainers from the turbulent 1940's. His purchasing power will be more than doubled. Businesses serving him should continue to be relatively prosperous—particularly those which provide equipment for him and his family. For all this, the farmer has the government to thank. Without government guarantees on farm prices, farm incomes would, of course, be substantially lower.

The city worker, too, will be better off than he was in 1941, but the increase in his buying power will not be nearly as great as that of the farmer. Once prices settle down he will be buying about a third more than he did in prewar days. At the moment, the worker isn't faring quite this well. But price trends over the next year will favor him.

Though food costs obviously are descending, the over-all drop won't be more than fifteen per cent—hardly enough to choke off complaints about the high cost of living.

As far as clothing is concerned, the stage is set already for a considerable decline. Both cotton and rayon goods dropped twenty to twenty-five per cent at wholesale through the first six months of this year. Prices recently became a bit higher, but most of this decline will hold. Consumers—especially women—have been slowing down adjustments in retail prices, by buying most things as they come along, regardless of price. As a matter of fact, this is probably the best-dressed business letdown in history.

Somewhat better price news can be found on another page of the home budget. The host of gadgets and appliances that supposedly make life easier are now within reach of more households. Here again, it isn't only that last year's models cost somewhat less—as they do, by ten per cent or more. Producers are being forced to design new products that fit smaller pocketbooks. Bendix has a new washer that sells for $179.95; its cheapest model last year was $249.95. General Electric is putting out a new portable dishwasher to sell at around $150; buyers last year paid about a hundred dollars more for standard models. And so it goes. Unfortunately there is a limit to this advance. Even the new cheaper appliances are likely to cost thirty-five to forty per cent more than they would have before the war.

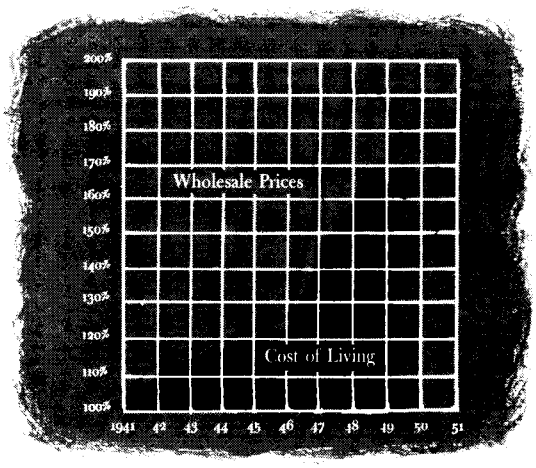
One final blow to household pocketbooks bears mentioning. Rents are heading higher. Even with controls, rents on the average have climbed ten per cent since 1947. Next year, housing through much of the country will go back on the old bargaining basis. Landlords will hold the upper hand; most of them should succeed in advancing their charges another ten per cent or more.

These, then, are the prospects facing the consumer. They don't add up to any startling improvement. Yet most consumers would gladly settle for them in exchange for a guarantee that paychecks will roll in regularly. This hasn't been the case in similar situations in the past. Periods of falling prices have been notorious for their unemployment. Is there any reason to believe the present is different—that we can move to a lower price level without badly upsetting business and the economy?

Fortunately, the very fact that price changes will be small affords promise of such a guarantee. Falling prices do create unemployment. We've seen it happen this year. Businessmen cut their own spending at such a time. They buy as little as they can in the hope of getting better bargains at a later date. This is just good business, but the process is one that throws men out of work.

Here is where the unions, with their power to protect wages, perform a real service—a service that is as useful to business as it is to labor. Were it possible for managements to slash wages in such a period of price decline, competition would inevitably force them to do so. That is what happened in 1921, and again after 1929. The result would be a more lengthy withdrawal of buyers from the market—a deeper decline in prices and production, greater unemployment. Nobody gains from this; everybody loses.

Stable wage rates, then, are the solid foundation that will hold most industrial prices high. There are certain exceptions, of course. A few commodities enjoyed an inflationary spree. Most of these have already retired to a more normal level—zinc, steel scrap, lumber, cotton cloth among them. All these are raw materials, and the fact that they are lower permits modest price concesisons in the products that contain them. Even so, most economists



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will be greatly surprised if industrial prices as a whole fall back more than ten per cent from their peak. Moreover, this retreat promises to be an orderly one, with a minimum disturbance to business. At its end—perhaps in late 1950—the average of industrial prices should stand approximately fifty per cent above 1941.

Certain prices that business itself has great interest in—steel, machinery, equipment of all types—may drop very little, if at all. Producers in these industries didn't widen their profit margins. Their prices were marked up less than the average for industry as a whole. They now are making savings from lower raw-material costs, and these can be passed on—to labor or to buyers.

It now appears certain that the bulk of these savings will go to labor. The President's Steel Board decided thus, in spite of its brave words to the contrary. The board ruled against another wage advance, but it pushed industry toward granting increased welfare and pension benefits. These are likely to cost eight to ten cents an hour—about six per cent of the present labor bill. Not only are labor costs for steel and automobiles on the rise: Workers in rubber, electrical equipment, machinery, and many related lines will realize similar gains. The results will affect prices—chiefly since producers will be encouraged to hold them at present levels.

Auto producers, as usual, will prove exceptions to the general rule. Cars have doubled in price since prewar. They carry more gadgets; costs are higher. But profit margins also are up. What will happen to the price of a Ford or a Chevrolet? Henry Ford II once said cars might come down sixteen per cent, which is a saving of two hundred and fifty to three hundred dollars. But even this much of a decline depends on the consumer.

He must make it clear that cars won't sell in large numbers unless prices are much lower. He must be willing to accept less trim, fewer gadgets. And he must become very choosey about price, preferring one make to another simply because it is cheaper. So far, consumers aren't acting this way. They may begin to do so in 1950. Their reward could be a new Ford or a new Chevrolet for as little as twelve hundred dollars, which still seems a lot of money.

One final corner of the price picture—usually neglected—has recently moved into the spotlight. How will changes in the rest of the world affect U.S. prices? And most specifically, what will be the impact on business of currency devaluation, particularly devaluation of sterling?

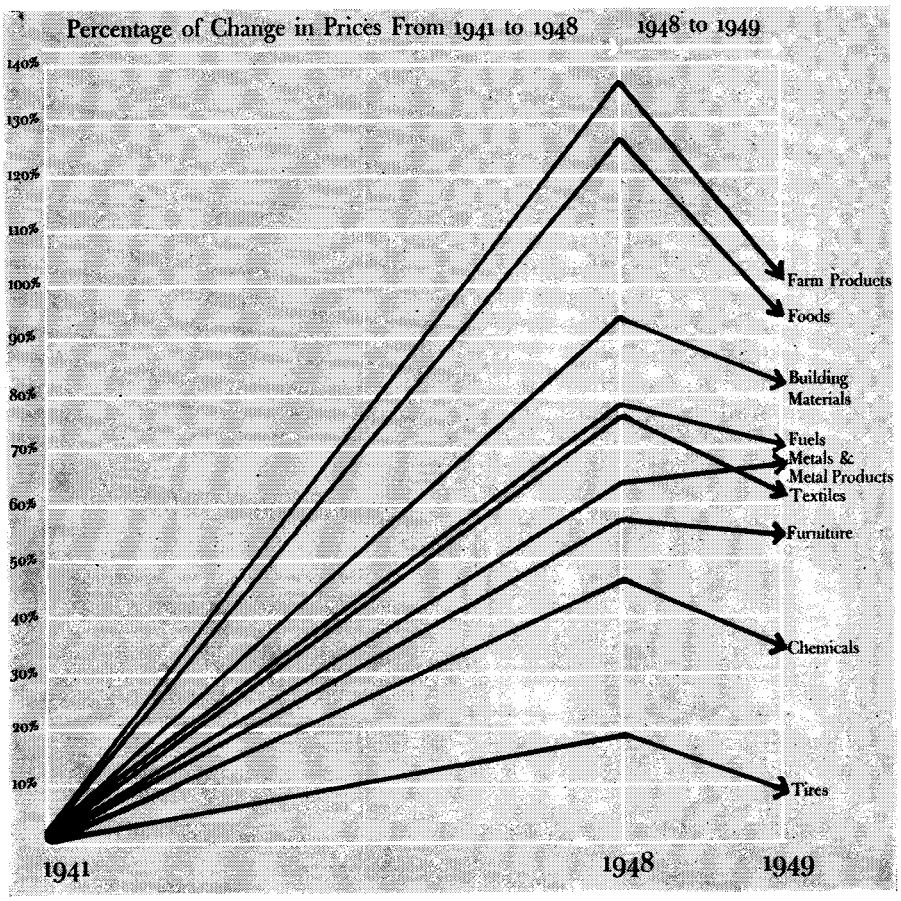
We already have some good clues to an answer on this. Sterling has been devalued thirty per cent, which means that products bought from the sterling area could possibly be made to cost that much less. Yet rubber, tin, wool, and burlap are lower by no more than five to ten per cent. Oil and hides are down even less. Copper hasn't been affected at all. Meanwhile, the price of each of these commodities is rising throughout Britain, India, Australia and other areas that devalued.

How are we to explain this strange turn of events? The answer is rather simple. Today, more than ever, American business is the tail that wags the world economy. Although devaluation is forcing adjustments in many world prices, these adjustments are being shaped largely by demand conditions in the United States. In a word, prices will make their big changes elsewhere. Changes in our country will be small.

There are a few cases to the contrary, of course. On certain lower-volume items—British woolens and autos, French wines and laces, Italian leather goods—devaluation is forcing lower prices. But this is as it should be if these countries are to expand their American markets and earn the dollars they need. The effect of price declines such as these on the entire busines picture will be negligible.

On the whole, the fact that our price levels will suffer no great postwar collapse is probably as much of a blessing to world business as it is to our own. It provides the world a chance to rearrange its shattered trade into an orderly pattern. It promises a steady stream of dollar exchange that other countries need and can count on. Above all, it suggests that American business will prove a sad disappointment to the enemies of western democracy—that the American economy will not drag the rest of the world into the morass the Communists have long been waiting for.

—John D. Wilson



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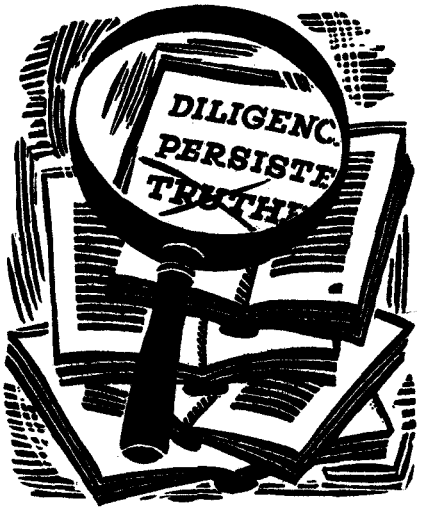
Books

How to Make a Lot of Money



By an interesting coincidence, the histories of three diverse and extraordinarily successful business enterprises have been published within the last few weeks. Their quality as history varies, as do their price tags. Jean Burton's story of a mass-consumption enterprise, *Lydia Pinkham Is Her Name*, (Farrar-Strauss, $2.75) costs considerably less than Ralph W. Hidy's *The House of Baring in American Trade and Finance* (Harvard, $7.50). The latter press also has published Ralph M. Hower's glossy record, *The History of an Advertising Agency: N. W. Ayer & Son at Work,* for the same price. When to these three books is added Frederick Lewis Allen's *The Great Pierpont Morgan* (Harper's, $3.50), published some months earlier, the temptation to search them through for a sure-fire formula for business success becomes irresistible. Four firms are hardly a statistical sample of business success. But their stories should at least suggest, however unscientifically, what it takes to make money.

If one were to start and finish with the immortal Lydia, whose biography is the slightest but also the most readable of the four books, he might conclude that business success was simply the reward for practicing the ancient virtues of compassion, diligence, and persistence, along with a certain amiable carelessness in the use of facts. Long before Lydia began marketing her product commercially, she had been pouring it down the throats of her female neighbors in Lynn, many of whom she loved. It was only when her husband's real-estate business went aground that she thought about selling her tonic. Even then she sold it only through the heroic efforts of her sons. Partly as a result of these labors, two went to their graves with tuberculosis before middle age. The Pinkhams later came to be great newspaper advertisers, but the product was launched by the laborious distribution of handbills and by personal visits to druggists.

The Pinkhams' view of veracity was not uncharacteristic of nineteenth-century businessmen, especially patent-medicine vendors. When Dan Pinkham, the oldest son, went to Brooklyn to sell "The Greatest Medical Discovery Since the Dawn of History," he learned that a fair number of New Yorkers had kidney trouble. Struck by the fact that men as well as women had kidneys, Dan decided to synchronize the product with the need. He urged that Vegetable Compound for females become forthwith a specific for kidney disorders. (Many, many years later it was discovered that Lydia's product did have value for the uterine troubles to which it was primarily addressed. Not only did it contain twenty per cent of alcohol—quite enough in large doses to make an afflicted female forget both her aches and her cares—but certain of its constituent herbs provided a version of what is now called estrogen therapy.)

There is also plenty of evidence of hard work and piety, abetted by some flexibility in dealing with facts, in the early history of N. W. Ayer & Son. Francis Wayland Ayer, the founder of the agency (because of his youth he used his father's name, and tacked himself on as "Son") started his career by soliciting advertising for a journal called *The National Baptist,* and then began to represent other religious periodicals. He was not the first in this field, but he seems to have been one of the most industrious.

Both he and the devout journals handled copy that was, on occasion, rather extreme. One early Ayer advertisement credits a breath-taking product called Compound Oxygen with "Remarkable Cures" of "*Consumption, Asthma, Catarrh, Bronchitis, Dyspepsia, Headache, Rheumatism, Neuralgia,* and the large class of ailments which come from *nervous depression.*" The Ayer agency, however, was one of the first to stop handling patent-medicine advertising. Since then, in a line of business that is somewhat less than austere, it has always cherished its reputation for circumspection and austerity. It does not handle liquor advertising, and Professor Hower, himself, a slightly austere man, observes: "It is notorious, of course, that wine and women play a part in the winning of many advertising accounts. . . . The Ayer management has always frowned—one might say glowered—upon such questionable methods of solicitation."

The Ayer agency was a success from the year it was founded, and, apart from the depression and a brief struggle over control in the early 1940's, has known little adversity. Accordingly, one cannot credit its leaders, as one must credit the Pinkhams, with persistence in the face of disappointment. It is not easy to identify the other ingredients of the agency's success, and Professor Hower is not altogether helpful. He is entranced, as anyone with an iota of imagination would be, with the action of the management in 1944 in setting up a Creative Production Board ("The significance of the Creative Pro-

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duction Board can hardly be overemphasized") but he doesn't do much to describe its creations. He does state that "the atmosphere of N. W. Ayer is charged with personal enthusiasm, professional pride, mutual respect and confidence, and a strong sense of common purpose." For some lines of business such an atmosphere might be a trifle too heady.

The House of Baring, the remarkable family of merchant bankers descended from Johann Baring, who moved from Bremen to Exeter, in Devon, in 1717, exemplifies a different factor in business success. That is personal influence. The rise of the Barings in the nineteenth century can be attributed in part to a capacity for cautious, long-headed decision, and to a special realization that panics would occur, that they would eventually end, and that patience would then be rewarded with an honest penny.

But the Barings' success resulted more particularly from easy and effective personal relations with kings, princes, and Prime Ministers and, on this side of the Atlantic, Secretaries of the Treasury, bankers, state politicians, and railroad builders. The firm profited hugely from the exceedingly generous underwriting terms offered by the British government during the Napoleonic Wars. Mr. Hidy, citing a report that the firm made a hundred thousand pounds in profit on each of three consecutive days from the Loyalty Loan of 1797, notes that: "In such fashion were reaped the rewards of friendship and ability within the moneyed and political aristocracy of the period."

Until Jackson's Presidency, similar personal relations kept for the firm its commission as London fiscal agent for the United States—a position it had filled right through the War of 1812. Its policy, in this delicate situation, was to help maintain the credit of the United States, while making sure that its action was consistent "with our character as good subjects [of the King]." Its compromise consisted in continuing disbursements on existing obligations of the United States, while declining to market any new issues. Much later, in the 1840's, the personal influence of the Barings, buttressed by some highly efficient lobbyists, was instrumental in getting Pennsylvania and Maryland to resume service on their defaulted obligations.

The House of Baring declined in relative importance toward the end of the nineteenth century. It still continues as Baring Brothers & Company Ltd., but its prestige suffered a serious blow in 1890. In that year the Bank of England and nearly the whole London financial community had to join in an emergency rescue mission, when the Barings found themselves with a large portfolio of unmarketable South American bonds, and heavy commitments to the Imperial Russian government and other clients. These were precisely the years when the House of Morgan was coming to the fore.

In what is, by a considerable margin, the most thoughtful book of the four, Frederick Allen provides a far more satisfactory picture of Morgan than has previously been available. Apart from one or two overly benign portraits, Morgan biographies have been eminently unfriendly. The composite picture which resulted was highly stylized: Morgan emerged as a grim and sinister force; a cunning and unscrupulous manipulator; a man avaricious of power, and unconcerned with the effects of his avarice either on other businessmen or society at large. But he was also known as a God-fearing pillar of the church, who set great store by business character, and commercial honesty and integrity.

Allen has effectively resolved these elements of contradiction and caricature. In unwinding the Morgan myth he has scotched the notion of the magnificent intriguer, and he has managed to show that Morgan lived consistently by his own lights. His notion of what was good for the country implied a belief in a kind of orderly collectivism governed by a financial élite. Not many would now share his somewhat childlike faith, but there is no reason to question his sincerity.

In simplifying Morgan's personality, Allen tends to substitute intelligence for guile as the basic factor in the financier's business achievements. I am not sure he's right. Allen himself adduces a good deal of evidence to show that Morgan succeeded not because he was smarter than his opposition, but because he was more completely certain of his course. It is entirely possible that the limits of his social vision, which kept him from seeing the consequences of high concentration of corporate wealth and power, also kept him from seeing very far into the business operations with which he was associated. But just as he never doubted that what was good for his firm was good for the United States, so he never doubted the wisdom of any course of action once it had been launched.

This point is crucial. In any difficult decision, there is, presumably, about as good a chance of being wrong as of being right. In Morgan's business deci-

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sions, however, the chances were overwhelmingly on the side of his being right. Prestige—the willingness of the crowd to follow Morgan's lead—could make bad decisions good. The money that followed Morgan's lead could often make a doubtful investment sound. More important, the economic growth of the country was an admirable solvent for error. The United States Steel Corporation was extravagantly overcapitalized when it was put together at the turn of the century. But a decade or two of national growth replaced the water with hard assets.

Under such favorable circumstances it was far more important to be certain than to be brilliant. The cardinal error was to lack self-confidence, or more especially to show the lack. There is no evidence that Morgan did. It was his certainty, not his superior mental attainments, that worsted Harriman in the struggle over the Northern Pacific, and which, six years later, enabled him to bolster the faltering line of bankers in the panic of 1907.

A generalization on self-assurance can, I think, be extended far beyond Morgan. In all four of the histories it was manifested in high degree. It was a supreme sense of personal security that enabled the Barings to deal on a plane of equality with princes, potentates, and American politicians. The engaging Pinkham family were supremely sure, not alone of the merits of their medicine, but also of themselves. Francis Wayland Ayer displayed similar confidence. I am inclined to think it is self-assurance, more than any other quality, that distinguishes the successful businessman from, say, the intellectual who wonders what it takes.

—J. K. GALBRAITH

Contributions

The Reader Reports

The articles appearing on these pages were contributed by readers in response to the theme question:

After the Marshall Plan, what? Is there anything else we should do to further European rehabilitation?

Freer Trade, More Dollars

After Marshall Plan aid ceases, America must further rehabilitation in Europe both from the desire to consolidate the progress already made, and from the imperious need to ensure Europe's economic and political sovereignty. We must demonstrate our faith in, and concern for, European welfare primarily by initiating a greatly liberalized trade policy. Also, Americans, as individuals and private groups, must invest in Europe.

America should be among the first to formulate a liberal trade policy. The nationalism inherent in protectionist policies is inconsistent with the "One World" principle. The wisdom of free trade is evident if we examine the productive possibilities of all countries.

Every European country has highly-developed native products or handiwork, created by expert and traditional craftsmanship. For example, certain sections of Europe are world renowned for their cheese, exquisite porcelain and crystalware, and fine steel. Such products often constitute the main bulk of a country's export trade. Let American industry and craftsmanship compete in the open market with imported products, and if European goods are preferred, the affected American labor and capital could be directed into more profitable channels here or elsewhere. With more dollars, Europe could pay for necessary imports. Consumers, too, would gain in quality and low prices.

If American businessmen were less reluctant about investing capital outside America they would soon find themselves involved in profitable undertakings. The combination of available capital and open markets is sufficient to insure continued economic growth almost anywhere. Eventually investment in more backward coun-

Instructions to Reader Contributors

Theme: ***"Can the American business man share in the job of increasing prosperity and stopping communism abroad?"***

1. All contributors should state the question to which the letter is in answer.
2. Letters should not exceed four hundred words.
3. Contributors are asked to print name, address, and occupation.
4. Contributions should be addressed to Reader Contributions, *The Reporter*, 220 East 42 Street, New York 17, New York.
5. Contributions to be printed will be selected by The Editors.
6. Each contributor whose letter is printed will receive a check for $25.00.
7. All contributions, whether printed or not, will become the property of *The Reporter*.
8. All contributions on this issue's question must be postmarked not later than November 1, 1949.

Reader contributors are asked to follow instructions carefully in order to avoid confusion between contributions on the theme-question and regular Letters to the Editor.

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tries must begin. This will open new markets and absorb added capital and labor. The simplicity of the capitalistic process is deceptive, but improper exploitation of it permits the growth of poverty and violent political doctrines. Perhaps universal education and political freedom will demonstrate to totalitarian and welfare states that interdependent countries and "enlightened self-interest" are most truly conducive to a wealthier and freer world.

PAULA JESPERSEN DIEHL
Providence, Rhode Island

Private Investment Abroad

Since the "dollar crisis" will probably still be with us after the end of the Marshall Plan, the obvious measures to balance international trade are being urged upon us from many sides. The United States must buy more abroad. Tariffs must be cut or eliminated. New markets for Europe must be developed. But even if such proposals are adopted, the United States may continue to make goods cheaper and better than Europe. In production, cheap labor has so far proved no match for cheap machinery.

A low-tariff policy for the United States does not carry the analogy between twentieth-century America and nineteenth-century Britain far enough. Britain had a favorable export balance despite free trade. As the British themselves sometimes point out, there was no "sterling crisis" because Britain, accepting the role of world banker, invested its surplus abroad.

Large-scale foreign investment by private American capital is the simplest and most natural solution for the dollar problem. It would be a multipurposed tool, creating dollar credit, increasing foreign productivity, relieving the strain on the United States Treasury, and providing new outlets for accumulated American capital.

Sir Stafford Cripps has insisted that Britain must increase its productive efficiency. This means more mass production. More mass production means more capital. The United States remains the world's best source of capital. When this capital becomes available to Europe on a sound basis, we may again see assembled the men, materials, and machinery that will restore healthy world trade.

CHARLES E. BLAIR, JR.
New York

Letters

To The Reporter

Distinguishing Marx

To the Editor: In your September 13 editorial, "Time for Reckoning—East and West," which I found interesting and informative, I viewed with alarm your reference to Marxism: "These conditions can be called imperialistic only by people affected by that peculiar combination of systematic malice and incurable dullness called Marxism."

Since I am a Marxian Socialist and agree with the principles of the World Socialist Party of the United States, I am, of course, affected by the writings of Karl Marx. Consequently I can hardly help resenting this apparently unreasonable allusion to a minority of which I find myself a member.

As a reporter of facts or of ideas, it is not necessary for you to resort to name-calling. I think that technique of influencing public opinion should be left to ambitious politicians and the adherents of totalitarian forms such as the Soviet system. That is one of their most dangerous weapons, and through it one may most readily discern their true colors. Besides, I don't like to be called malicious or dull, so let us be courteous whether we agree or not, and then we can possibly come to terms.

LAWRENCE H. KRAMER
Boston, Massachusetts

War, Peace, and Hors d'Oeuvres

To the Editor: Your policy of complete objectivity is the policy of the ostrich with its head kept out of sight and all the rest sticking out—a most awkward position to assume. As the head is still considered an important part of the anatomy, your readers should be given the benefit of its existence.

For example, in a most interesting and well-written article by G.P., on the subject of war and peace, in your September 27 issue, it is to be noted that it is Tolstoy, and not G.P., who comes out in the open with a definite statement on what he believes to be the cause of recurring wars. G.P. rejects Tolstoy's zoological explanation, but carefully avoids committing himself or *The Reporter* to an explanation of his own. That part of G.P. which is revealed by his approach to the problem of war, and his indignation against a zoological interpretation, suggests a person of spiritual inclination, undoubtedly a staunch believer in the high moral responsibility of man toward himself and his fellow man. If he rejects Tolstoy's explanation, he must also view with horror Maeterlinck's passionate endeavor to identify the society of insects with the society of men. All that is assumed, however, and I would have preferred a little less of Tolstoy and a little more of G.P. He hastens to assure us that democracy is the safest road to travel, and makes an immediate exit upon these good words. We then recall the following opinions expressed by the eminent historian, Arnold Toynbee: "Democracy has put its drive into war instead of against it" and "this age of relatively civilized warfare came to an end at the close of the eighteenth century when war began to be keyed up once again by the impact of democracy and industrialism."

Pronouncements such as these should not be ignored if you decide to take up the problem of war in our time. They go to the heart of the matter, and could be the basis of a challenging article.

Your magazine tempts us with appetizing hors d'oeuvres, but often fails to follow up with the more substantial main course—and I am a man who likes to be well fed.

B. DE TURENNE
New York City

Dear Reader:

The Russian atomic explosion, coinciding with new pressures in Asia and the world-wide effects of British devaluation, has set a reverberating period to a phase of U. S. policy. In our next issue we will examine the direction which new policies and principles must take.

Among the contributors to the present issue are: A. A. Berle, Jr., lawyer, author, former Under Secretary of State; Bob Lasch, editorial writer for the Chicago *Sun;* Philip D. Reed, Chairman of the Board of Directors, General Electric Company; William Costello, CBS foreign correspondent; Frank Gervasi, author of *Big Government;* J. Kenneth Galbraith, Harvard economist.

—The Editors

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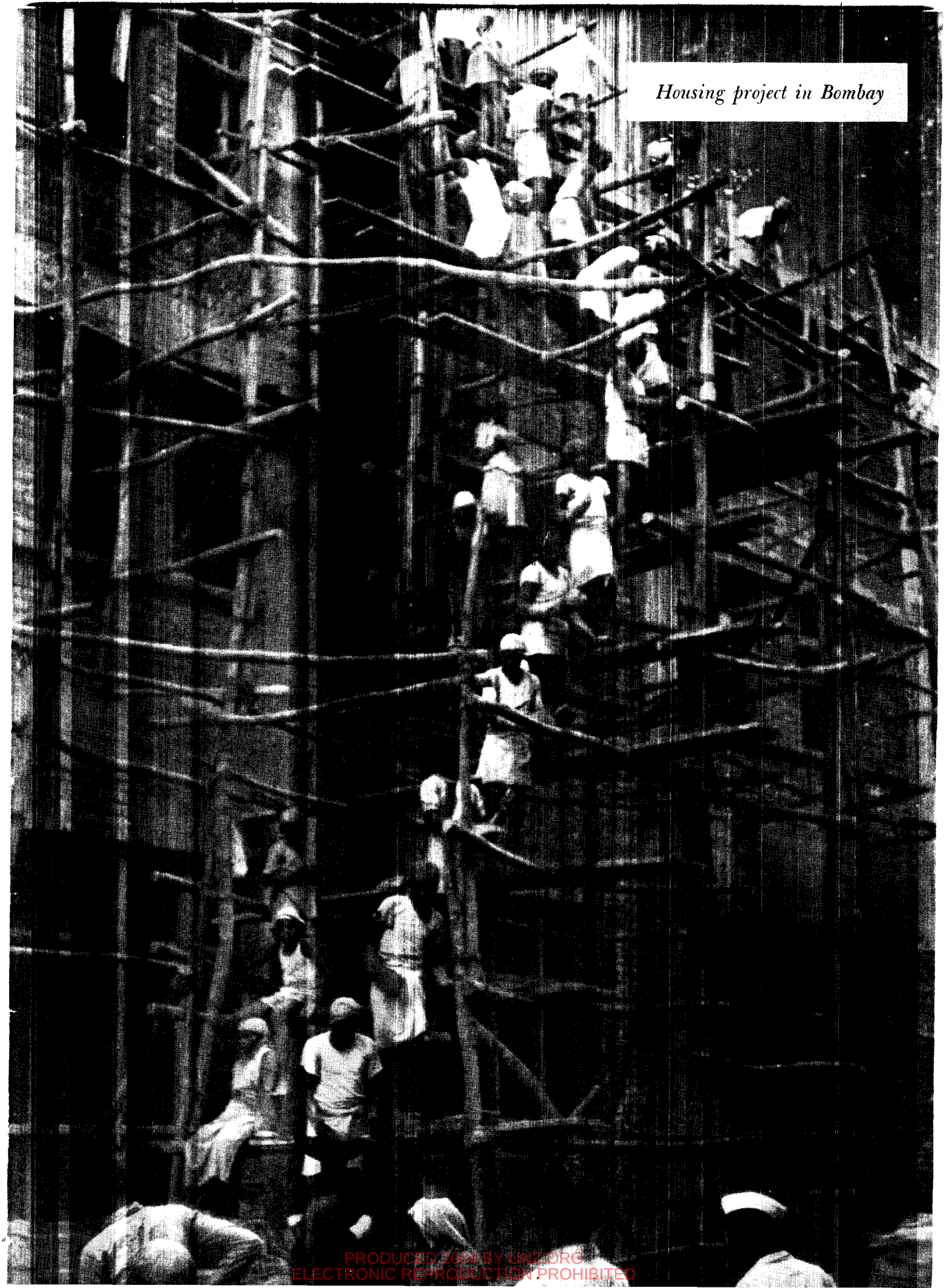

Housing project in Bombay

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